JSC INTER RAO UES

IFRS Consolidated financial statements

For the year ended 31 December 2010
with report of independent auditors

Contents

Report of independent auditors

IFRS consolidated financial statements

Notes to the financial statements

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Independent auditors' report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of JSC INTER RAO UES and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and Notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of JSC INTER RAO UES as at 31 December, 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The combined and consolidated financial statements of JSC INTER RAO UES for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 27 July 2010.

Ernst & Young LLC

25 May 2011

Consolidated statement of financial position

(in thousands of EUR)

	Note	31 December 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	6	1,525,997	1,305,214
Investment property	7	26,920	56,241
Intangible assets	8	35,916	33,163
Investments in associates and jointly controlled entities	9	1,126,008	216,123
Deferred tax assets	10	33,298	26,300
Other non-current assets	11	81,004	271,009
Total non-current assets		**2,829,143**	**1,908,050**
Current assets			
Inventories	12	68,051	57,244
Accounts receivable and prepayments	13	322,642	273,371
Income tax prepaid		1,756	9,108
Cash and cash equivalents	14	211,098	190,196
Other current assets	15	421,698	9,464
Total current assets		**1,025,245**	**539,383**
Total assets		**3,854,388**	**2,447,433**
Equity and liabilities			
Equity			
Share capital: registered shares	16	2,186,812	1,732,306
Treasury shares	16	(31,569)	(74,701)
Share premium	16	299,520	–
Cash flow hedging reserve	16	(30,492)	106
Property, plant and equipment revaluation reserve		433,730	438,765
Foreign currency translation reserve		(211,597)	(273,552)
Accumulated deficit		(267,995)	(524,849)
Total equity attributable to shareholders of the Company		**2,378,409**	**1,298,075**
Non-controlling interest		16,410	6,232
Total equity		**2,394,819**	**1,304,307**
Non-current liabilities			
Loans and borrowings	18	628,131	585,793
Deferred tax liabilities	10	76,973	35,481
Other non-current liabilities	20	19,739	227,550
Total non-current liabilities		**724,843**	**848,824**
Current liabilities			
Loans and borrowings	18	46,872	121,516
Accounts payable and accrued liabilities	19	651,971	150,930
Other taxes payable	21	25,680	15,650
Income tax payable		10,203	6,206
Total current liabilities		**734,726**	**294,302**
Total liabilities		**1,459,569**	**1,143,126**
Total equity and liabilities		**3,854,388**	**2,447,433**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

25 May 2011

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 83.

Consolidated statement of comprehensive income

(in thousands of EUR)

	Note	For the year 2010	2009
Revenue	22	2,008,926	1,543,413
Operating expenses	24	(1,883,430)	(1,890,368)
Other operating income	23	59,567	21,803
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	5	1,001	25,595
Operating profit / (loss)		**186,064**	**(299,557)**
Finance income	25	24,786	21,551
Finance expenses	25	(125,347)	(127,000)
Share of profit of associates and jointly controlled entities	9,5	282,436	62,885
Profit / (loss) before income tax		**367,939**	**(342,121)**
Total income tax (expense) / benefit	26	(77,993)	59,865
Profit / (loss) for the year		**289,946**	**(282,256)**
Other comprehensive income			
Revaluation of property, plant and equipment		–	261,024
Change of revaluation of property, plant and equipment of a jointly controlled entity		–	26,128
Reversal of property, plant and equipment revaluation reserve		(3,015)	(44,092)
Cash flow hedges, net of tax	16	(30,598)	106
Exchange gain / (loss) on translation to presentation currency		61,940	(85,159)
Other comprehensive income, net of tax		**28,327**	**158,007**
Total comprehensive profit / (loss) for the year		**318,273**	**(124,249)**
Profit / (loss) attributable to:			
Shareholders of the Company		275,594	(280,788)
Non-controlling interest		14,352	(1,468)
		289,946	**(282,256)**
Total comprehensive income / (loss) attributable to:			
Shareholders of the Company		303,936	(121,744)
Non-controlling interest		14,337	(2,505)
		318,273	**(124,249)**
Basic earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company	17	**EUR 0.0001099**	**EUR (0.0001290)**
Diluted earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company	17	**EUR 0.0001098**	**EUR (0.0001285)**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

25 May 2011

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 83.

Consolidated statement of cash flows

(in thousands of EUR)

	Note	For the year 2010	2009
Operating activities			
Profit / (loss) before income tax		367,939	(342,121)
Adjustments to reconcile profit before tax to net cash provided by operations:			
Depreciation and amortisation of property, plant and equipment	24	90,810	77,268
Depreciation and amortisation of investment property	24	491	257
Amortisation of intangible assets	24	2,312	1,654
Provision for impairment of accounts receivable	24	4,254	6,825
Other provisions charge	24	3,826	3,965
Write off of bad debt which was not previously provided	24	1,795	(50)
Impairment of property, plant and equipment	24	403	384,116
Impairment of investment property	7	3,709	12,437
Impairment of intangible assets	24	–	7,862
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	5	(1,001)	(25,595)
Share of profit of associates and jointly controlled entities	9,5	(282,436)	(62,885)
Loss on disposal of property plant and equipment	24	4,414	1,741
Gain on disposal of group entities		–	(814)
Foreign exchange (gain) / loss		(7,552)	44,656
Interest income	25	(24,784)	(21,551)
Interest expense	25	81,044	73,106
Government grants / subsidies	22	(2,369)	(1,238)
Dividend income		(2)	–
Option plan	31	2,365	21,089
Put and call option agreement	16	38,386	–
Other non-cash operations/items		1,659	(1,257)
Operating cash flows before working capital changes and income tax paid		**285,263**	**179,465**
Decrease / (increase) in inventories		691	(11,570)
Increase in accounts receivable and prepayments		(44,076)	(10,763)
(Increase) / decrease in value added tax recoverable		(4,935)	6,802
(Increase) / decrease in other current assets		(155,079)	24,707
Increase in other non-current assets		(3,101)	(99,873)
Increase in accounts payable and accrued liabilities		127,799	102,805
Increase / (decrease) in pension liabilities		1,620	(3)
Increase / (decrease) in taxes other than on income prepaid and payable, net		12,144	(16,684)
Income tax paid		(12,407)	(19,567)
Currency translation effect		(39,851)	(37,314)
Net cash flows received from operating activities		**168,068**	**118,005**
Investing activities			
Proceeds from disposal of property, plant and equipment		99	110
Interest received		7,363	14,888
Purchase of property, plant and equipment and intangible assets		(168,416)	(221,986)
Purchase of associates and jointly controlled entities	5,9	(559,511)	(39,796)
Purchase of subsidiary, net of cash acquired	5	3,131	(75,537)
Purchase of non-controlling interest in subsidiary	5	–	(1,020)
Disposal of Group entities	5	–	12
Proceeds from loans issued		141,192	27,341
Loans issued		(107,965)	(56,552)
Dividends received	9	8,132	2,902
Net cash flows used for investing activities		**(675,975)**	**(349,638)**
Financing activities			
Proceeds from borrowings		493,102	697,454
Repayment of borrowings		(565,055)	(489,302)
Repayment of lease		(14,543)	(6,789)
Interest paid		(65,916)	(61,228)
Dividends paid	16	(4,325)	(5,072)
Proceeds from issuance of additional shares	16	650,272	–
Proceeds from treasury shares redemption		21,484	–
Net cash flows received from financing activities		**515,019**	**135,063**
Effect of exchange rate fluctuations on cash and cash equivalents		13,790	12,927
Net increase / (decrease) in cash and cash equivalents		**20,902**	**(83,643)**
Cash and cash equivalents at the beginning of the year		190,196	273,839
Cash and cash equivalents at the end of the period	14	**211,098**	**190,196**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

25 May 2011

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 83.

Consolidated statement of changes in equity

(in thousands of EUR)

		Attributable to shareholders of the Company									
	Note	*Share capital registered*	*Treasury shares*	*Share premium*	*Foreign currency translation reserve*	*Hedging reserve*	*Revaluation reserve*	*Accumulated earnings/ (deficit)*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2009		6,165,300	(265,756)	–	(189,247)	–	183,837	(4,500,213)	1,393,921	17,810	1,411,731
Total comprehensive (loss)/income for the year ended 31 December 2009		–	–	–	(84,305)	106	241,472	(279,017)	(121,744)	(2,505)	(124,249)
Dividends to shareholders	16	–	–	–	–	–	–	–	–	(5,072)	(5,072)
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	13,456	(8,647)	4,809	(5,829)	(1,020)
Acquisition of subsidiaries	5	–	–	–	–	–	–	–	–	1,828	1,828
Decrease in nominal value of share capital	16	(4,432,994)	191,055	–	–	–	–	4,241,939	–	–	–
Shares option plan	31	–	–	–	–	–	–	21,089	21,089	–	21,089
		(4,432,994)	191,055	–	–	–	13,456	4,254,381	25,898	(9,073)	16,825
Balance at 31 December 2009		1,732,306	(74,701)	–	(273,552)	106	438,765	(524,849)	1,298,075	6,232	1,304,307
Balance at 1 January 2010		1,732,306	(74,701)	–	(273,552)	106	438,765	(524,849)	1,298,075	6,232	1,304,307
Total comprehensive (loss)/income for the year ended 31 December 2010		–	–	–	61,955	(30,598)	(5,035)	277,614	303,936	14,337	318,273
Dividends to shareholders	16	–	–	–	–	–	–	–	–	(4,323)	(4,323)
Additional issue of shares	16	454,506		195,766	–	–	–	–	650,272	–	650,272
Acquisition of subsidiaries	5	–	–	–	–	–	–	(1,781)	(1,781)	164	(1,617)
Put and call option agreement	16	–	–	103,754	–	–	–	–	103,754	–	103,754
Sale of treasury shares	16	–	9,059	–	–	–	–	4,617	13,676	–	13,676
Shares option plan	31	–	34,073	–	–	–	–	(23,596)	10,477	–	10,477
		454,506	43,132	299,520	–	–	–	(20,760)	776,398	(4,159)	772,239
Balance at 31 December 2010		2,186,812	(31,569)	299,520	(211,597)	(30,492)	433,730	(267,995)	2,378,409	16,410	2,394,819

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

25 May 2011

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 83.

(in thousands of EUR)

1. The Group and its operations

Establishment of the Group

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

As at 31 December 2009 the State Corporation Rosatom held a 57.34% interest in the Group.

As a result of additional issue (see Note 16) the share of the State Corporation Rosatom in Parent company was diluted and as at 31 December 2010 was 33.4%. State Corporation Vnesheconombank held as at 31 December 2010 18.2958% interest in the Group. Both corporations are controlled by the Russian Federation.

The Company operates four power plants located in different regions of Russia and has controlling interests in a number of subsidiaries. The Company's principal subsidiaries as at 31 December 2010 are presented in Note 33.

The Group performs the following types of business activity:

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

At 31 December 2010 the number of employees of the Group was 15,879 (31 December 2009: 15,872).

With effect from 25 July 2008 the Company's registered office is entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, Russia.

Group's business environment

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

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

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

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment and certain financial instruments which are measured at fair value, as discussed in Note 3.

(in thousands of EUR)

2. Basis of preparation (continued)

Functional and presentation currency

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

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

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

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

Seasonality

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

Going concern

The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. These accompanying financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Critical accounting estimates and judgments

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

Impairment provision for accounts receivable

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

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

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

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently (see Note 13).

Revaluation and impairment of property, plant and equipment

Fair value of property, plant and equipment of the Group companies has been determined by independent appraiser as at 31 December 2009. The carrying value of property, plant and equipment is affected by cash flow projections. Changes in the assumptions used in those projections could have a material impact to the fair value of property, plant and equipment (see Note 6).

(in thousands of EUR)

2. Basis of preparation (continued)

Critical accounting estimates and judgments (continued)

As at 31 December 2010 a number of significant estimates and assumptions were made relating to the determination of the recoverable amount of the property, plant and equipment and the investment property of CJSC Electrolutch (see Notes 6, 7).

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

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Loans and borrowings

As at 31 December 2010 the Group accounts for loans with a nominal value of EUR 115,993 thousand at an amortised cost of EUR 3,573 thousand (31 December 2009: a nominal value – EUR 65,492 thousand: an amortised cost – EUR 6,048 thousand). The amortised cost of these loans (see Note 18 (i)) has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of future capital investments, gas and electricity prices and market rates on similar financial instruments. Changes in any of these conditions or estimates may result in significant adjustments to the future amortised cost.

Tax contingencies

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

Deferred income tax asset recognition

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

Changes in presentation

Segment information

Starting from the year 2010, the Group began to disclose trading and generation in Russia as a single segment (see Note 4) as CODM analyses operating activities of the Parent company as a whole entity. The comparative information was revised correspondingly.

Property, plant and equipment

Due to revised approach on disclosure of cost, depreciation and impairment, for those objects of property, plant and equipment, which were not revaluated as at 31 December 2009, reversal of previously netted accumulated depreciation and impairment was performed.

Netting off the accumulated depreciation due to revaluation as at 31 December 2009 was reversed to opening balances of property plant and equipment in the amount of EUR 1,899 thousand.

Reversal of the accumulated impairment due to revaluation as at 31 December 2009 was grossed-up between impairment loss and revalued amount of property, plant and equipment in the amount of EUR 2,550 thousand.

Net effect comprising of mentioned above changes in the amount of EUR 651 thousand is disclosed in Note 6.

(in thousands of EUR)

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. These accounting policies have been consistently applied.

Basis of consolidation

Principles of consolidation

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

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

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

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

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

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

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

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

Business combinations

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

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

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

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

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Other non-monetary assets and liabilities measured in a foreign currency are remeasured to the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on remeasurement are recognised in profit and loss.

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

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

Property, plant and equipment

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

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

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

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

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

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

Type of facility	***Useful life, years***
Buildings	8 – 100
Hydro engineering structures	33 – 100
Transmission facilities and equipment	13 – 25
Thermal networks	11 – 25
Power equipment	8 – 33
Other equipment and fixtures	4 – 50
Other structures	6 – 50
Other fixed assets	4 – 33

Investment properties

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

Investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Investment property acquired as a result of business combination is initially recognised at its fair value as a deemed cost at the date of its acquisition. Losses arising due to depreciation and impairment are recorded in profit and loss. Depreciation on investment property is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The useful life for buildings for rent out purposed equalled to 58 years.

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

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

Transfers are made to / from investment property when, and only when, there is a change in use, evidenced ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. Transfers to / from investment property are recognised at cost less any accumulated depreciation and any accumulated impairment losses as a deemed cost at the date of transfer.

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

Intangible assets

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

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

When the excess is negative ("negative goodwill"), the excess is recognised immediately in profit and loss. For associates and jointly controlled entities such excess is recognised in profit and loss as a part of the share of profit / loss of an associate.

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

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Intangible assets (continued)

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

Leased assets

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

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

Available-for-sale investments

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

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

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

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

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

Derivative financial instruments and hedging activities

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

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);

(c) hedges of a net investment in a foreign operation (net investment hedge).

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

The Group also documents its assessment, both at the time of the hedges' inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Foreign currency forward exchange contracts (foreign currency forwards)

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

Electricity derivatives

Electricity derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cashflow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

Inventories

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

Cash and cash equivalents

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

Accounts receivable

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

Prepayments

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Prepayments (continued)

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

Value added tax on purchases and sales

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

Impairment

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

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

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

All impairment losses are recognised in profit and loss.

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

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

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

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

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

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Employee benefits

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

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

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

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

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

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

Borrowings

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

Government grants

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

Provisions

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

Environmental liabilities

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Shareholder’s equity

Dividends

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

Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has dilution effect caused by share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company’s shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Share premium

Share premium is determined as difference between the issue cost of shares and their nominal value. Share premium is translated into reporting currency using the historical rate as at the date of the transaction and recognised in the consolidated statement of changes in equity.

Revenue

Revenue from the sale of electricity, capacity and heat is recognised in profit and loss on the delivery of electricity, capacity and heat. Where applicable this revenue is based on the rates and related restrictions established by law and regulating authorities. The regulatory mechanisms differ from country to country.

Revenue from the rendering of services is recognised in line with the stage of completion of the services. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as part of amounts due to or due from customers for contract work. Revenue amounts are presented exclusive of value added tax.

Operating expenses

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

Finance income

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

Finance expenses

Finance expenses primarily include interest expense on borrowings, unwinding of any discount on provisions and foreign currency losses. All borrowing costs are recognised in the consolidated statement of comprehensive income using the effective interest method unless directly attributable to acquisition of a qualifying asset. Commission fee for opening of credit lines is included into interest expense.

Income tax expense

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

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

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

Income tax expense (continued)

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

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

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

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

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 27.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards

Certain new IFRSs have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 and that have been considered in preparing these consolidated financial statements:

(a) The following IFRSs became effective for the Group's financial statements from 1 January 2010:

- *IFRS 2 (Amendment), 'Group Cash-settled Share-based Payment Transactions'(effective for annual periods beginning on or after 1 January 2010).* The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The financial statements have been prepared under the revised disclosure requirements.
- *IFRS 3, 'Business Combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, that is from January 2010).* The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquiree will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendments to have any material effect on its financial statements.
- *IAS 27, 'Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009, that is from January 2010).* The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The financial statements have been prepared under the revised disclosure requirements.
- *Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the following IFRSs: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The Group does not expect the amendments to have any material effect on its financial statements.

There are other pronouncements, improvements and amendments that are not relevant for the current Group's operations since they will be adopted in 2011 or thereafter.

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

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

- *IAS 24 (Amendment), 'Related Party Disclosures' (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).* IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on its financial statements.
- *IFRS 9, Financial Instruments Part 1: 'Classification and Measurement.'* IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  i. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  ii. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  iii. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.
- *IAS 32 (Amendment), 'Financial Instruments: Presentation' (the amendment is applicable for annual periods beginning on or after 1 February 2010).* Classification of Rights Issues clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is expected to have no impact on the Group's consolidated financial statements.
- *IFRS 7 (Amendment), 'Disclosures' (the amendment is effective for annual periods beginning on or after 1 July 2011).* Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is expected to have no impact on the Group's consolidated financial statements.
- *IAS 12 (Amendment), 'Income taxes – Deferred Tax: Recovery of Underlying Assets' (the amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively).* The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is expected to have no impact on the Group's consolidated financial statements.
- *IFRS 10 Consolidated* Financial Statements (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted). IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

(in thousands of EUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IFRS 11 Joint Arrangements (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted).* IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard – joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.
- *IFRS 12 Disclosure of Interests in Other Entities (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted*). IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.
- *IFRS 13 Fair Value Measurement (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted).* IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.
- *IFRIC 14 (Amendment), 'The limit on a Defined Benefit Asset' (the amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively).* Minimum Funding Requirements and their Interaction clarify the accounting treatment for prepayments made when there also is a minimum funding requirement. The amendment is expected to have no impact on the Group's consolidated financial statements.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance on accounting for debt for equity swaps by the debtor (applicable for annual periods beginning on or after 1 July 2010).*The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. The Group is currently assessing the impact of the new interpretation on its financial statements.

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

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

(in thousands of EUR)

4. Segment information

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

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

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

- Generation and trading in Russia (represented by the Parent company and JSC Industrial Energetics);
- Trading in Finland (represented by RAO Nordic Oy);
- Distribution in Georgia (represented by JSC Telasi);
- Distribution in Armenia (represented by JSC Elektricheskiye seti Armenii);
- Generation in Moldavia (represented by CJSC Moldavskaya GRES);
- Generation in Kazakhstan (represented by JSC Stantsiya Ekibastuzskaya GRES-2);
- Engineering in Russia (represented by Quartz Group and LLC InterRAO-WorleyParsons);
- Other.

JSC Stantsiya Ekibastuzskaya GRES-2 and Quartz Group are considered as fully consolidated for management reporting as reviewed by the CODM.

For the segment information reviewed by the CODM for the period ended 31 December 2010 the Group activities (generation and trading) attributable to the geographical segment – Russia, were represented jointly in management accounting. For the purpose of comparability the same information was provided for the year ended 31 December 2009 and the year ended 31 December 2009 – the segments attributable to the activities Generating Russia and Trading Russia were disclosed a combined segment Generation and Trading Russia.

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

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

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

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

Segments' measures reviewed by the CODM are prepared based on local statutory accounting principles in the respective countries and exclude inter-segment balances. Reconciliation of segments' measures to the primary statements is provided below.

(in thousands of EUR)

4. Segment information (continued)

The year ended 31 December 2010

	Generation and Trading Russia	*Trading Finland*	*Distribution Georgia*	*Distribution Armenia*	*Generation Moldavia*	*Generation Kazakhstan*	*Engineering Russia*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**1,564,164**	**297,091**	**98,250**	**199,900**	**149,435**	**123,411**	**132,278**	**310,692**	**(476,073)**	**2,399,148**
Revenue from external customers	1,120,144	297,091	98,250	199,574	149,421	122,591	118,637	293,440	–	2,399,148
Inter-segment revenue	444,020	–	–	326	14	820	13,641	17,252	(476,073)	–
Purchased electricity and capacity	(954,968)	(251,189)	(31,686)	(90,329)	(14,295)	(955)	–	(237,599)	457,474	(1,123,547)
Fuel expenses	(147,712)	–	–	–	(90,469)	(21,552)	–	(17,802)	–	(277,535)
EBITDA	**150,486**	**6,003**	**34,128**	**47,118**	**24,099**	**62,507**	**(8,220)**	**13,895**	**7,368**	**337,384**
Depreciation and amortisation of property, plant and equipment and intangible assets	(76,147)	(65)	(4,716)	(8,287)	(4,456)	(10,846)	(614)	(4,412)	–	(109,543)
Interest income	41	73	284	213	–	2,924	154	2,542	18,275	24,506
Interest expense	(3,312)	(379)	(2,578)	(7,341)	(162)	(3,014)	(135)	(2,576)	(61,146)	(80,643)

	Generation and Trading Russia	*Trading Finland*	*Distribution Georgia*	*Distribution Armenia*	*Generation Moldavia*	*Generation Kazakhstan*	*Engineering Russia*	*Other*	*Unallocated and eliminations*	*Total*
Total assets, including:	**2,064,339**	**57,539**	**104,491**	**252,596**	**151,638**	**376,613**	**406,716**	**349,715**	**653,905**	**4,417,552**
Property, plant and equipment	1,613,929	243	72,607	194,103	67,623	305,742	10,614	117,284	–	2,382,145
Goodwill	–	–	–	–	–	–	–	–	26,142	26,142
Investments in associates	–	–	–	–	–	–	–	790	702,202	702,992
Total liabilities, including:	**198,041**	**64,881**	**38,206**	**146,210**	**6,961**	**82,283**	**377,522**	**88,431**	**505,601**	**1,508,136**
Loans and borrowings	39,009	15,052	13,849	85,729	–	23,301	3,046	24,479	505,600	710,065
Capital expenditure	**234,358**	**189**	**15,549**	**71,662**	**10,626**	**14,009**	**754**	**28,938**	**–**	**376,085**

(in thousands of EUR)

4. Segment information (continued)

The year ended 31 December 2009

	Generation and Trading	*Trading*	*Distribution*	*Distribution*	*Generation*	*Generation*	*Engineering*		*Unallocated and*	
	Russia	*Finland*	*Georgia*	*Armenia*	*Moldavia*	*Kazakhstan*	*Russia*	*Other*	*eliminations*	*Total*
Total revenue	**1,061,555**	**196,496**	**93,618**	**180,351**	**146,250**	**65,418**	**–**	**104,654**	**(209,307)**	**1,639,035**
Revenue from external customers	879,779	196,496	93,618	180,015	146,249	65,418	–	77,460	–	1,639,035
Inter-segment revenue	181,776	–	–	336	1	–	–	27,194	(209,307)	–
Purchased electricity and capacity	(638,754)	(166,641)	(34,393)	(94,628)	(16,826)	(597)	–	(58,832)	208,916	(801,755)
Fuel expenses	(122,535)	–	–	–	(86,271)	(13,333)	–	(21,705)	–	(243,844)
EBITDA	**109,320**	**5,789**	**25,389**	**30,756**	**24,892**	**20,818**	**–**	**1,461**	**1,053**	**219,478**
Depreciation and amortisation of property, plant and equipment and intangible assets	68,179	33	2,468	8,526	3,982	8,473	–	3,694	–	95,355
Interest income	13	67	127	388	–	569	–	2,741	10,602	14,507
Interest expense	(4,558)	(26)	(1,571)	(5,232)	(86)	(1,259)	–	(477)	(53,140)	(66,349)

	Generation and Trading	*Trading*	*Distribution*	*Distribution*	*Generation*	*Generation*	*Engineering*		*Unallocated and*	
	Russia	*Finland*	*Georgia*	*Armenia*	*Moldavia*	*Kazakhstan*	*Russia*	*Other*	*eliminations*	*Total*
Total assets, including:	**1,763,026**	**15,044**	**89,730**	**211,945**	**140,917**	**223,185**	**–**	**278,766**	**101,974**	**2,824,587**
Property, plant and equipment	1,343,568	97	60,060	145,470	64,311	197,304	–	101,826	–	1,912,636
Goodwill	–	–	–	–	–	–	–	–	32,591	32,591
Investments in associates	–	–	–	–	–	–	–	297	64,269	64,566
Total liabilities, including:	**118,163**	**9,326**	**46,741**	**106,798**	**14,499**	**58,222**	**–**	**60,103**	**580,540**	**994,392**
Loans and borrowings	31,283	4	17,993	63,497	7,567	33,752	–	22,946	580,540	757,582
Capital expenditure	**312,118**	**–**	**9,078**	**51,611**	**9,357**	**22,312**	**–**	**21,370**	**–**	**425,846**

(in thousands of EUR)

4. Segment information (continued)

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

- several Group entities do not use revaluation policy regarding property, plant and equipment in management accounting;
- full consolidation of operations of JSC Stantsiya Ekibastuzskaya GRES-2, Quartz Group and other jointly-controlled entities in management accounting;
- the majority of IFRS adjustments made in the financial statements in respect of the Parent company, CJSC Moldavskaya GRES and other Group companies are not reflected in management accounting.

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

	For the year ended 31 December 2010	***For the year ended 31 December 2009***
Revenue for reportable segments	**2,399,148**	**1,639,035**
JSC Stantsiya Ekibastuzskaya GRES-2	(122,591)	(65,418)
Gross versus net presentation of revenue under IFRS	(121,036)	(23,811)
Quartz Group	(118,637)	–
Other income included in revenue under Management accounting	(31,918)	(8,224)
Government grants given to Group entities	2,369	–
Other adjustments	1,591	1,831
Revenue per Consolidated Statement of Comprehensive Income	**2,008,926**	**1,543,413**
Depreciation and amortisation for reportable segments	**109,543**	**95,355**
JSC Stantsiya Ekibastuzskaya GRES-2	(10,846)	(8,473)
Difference in depreciation of property, plant and equipment[1]	(6,396)	(8,749)
Amortisation of intangible assets of the Parent company	1,638	1,076
Depreciation of investment property	491	257
Other adjusments	(817)	(287)
Deprecation and amortisation per Consolidated Statement of Comprehensive Income	**93,613**	**79,179**
EBITDA for reportable segments	**337,384**	**219,478**
Share of profit in associates and jointly controlled entities	282,436	62,885
JSC Stantsiya Ekibastuzskaya GRES-2	(62,507)	(20,818)
Quartz Group	7,996	–
Provision for impairment of accounts receivable	(6,081)	(6,337)
Reclassification between other operating and financial income/expense	3,960	–
Recognition of income in period different from Management accounting	3,502	–
Bank services, included in other operating expenses	(3,257)	(4,025)
Share based payments	(2,365)	(21,089)
Disposal of Group entities	–	814
Loss on property, plant and equipment disposal, unrecordered in segment reporting	–	496
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	1,001	25,595
Other adjustments	4,156	(6,583)
EBITDA per Consolidated Statement of Comprehensive Income	**566,225**	**250,415**
Finance Income / Expense	(100,561)	(105,449)
Depreciation and amortisation	(93,613)	(79,179)
Impairment of investment property	(3,709)	(12,437)
Impairment of property plant and equipment	(403)	(384,116)
Impairment of Goodwill	–	(7,862)
Impairment of JSC Sangtudinskaya GES-1	–	(3,493)
Profit/(loss) before income tax per Consolidated Statement of Comprehensive Income	**367,939**	**(342,121)**

[1] Relates both to different gross basis and useful lives

(in thousands of EUR)

4. Segment information (continued)

	31 December 2010	*31 December 2009*
Total assets for reportable segments	**4,417,552**	**2,824,587**
Quartz Group	(394,210)	–
Equity accounting of associates and jointly controlled entities	250,655	35,249
Difference in measurement of property, plant and equipment	(332,157)	(366,935)
JSC Stantsiya Ekibastuzskaya GRES-2	(229,439)	(107,073)
Fair value adjustments of CJSC Electrolutch on acquisition	92,854	86,316
Put&Call option recognition	62,999	–
IFRS adjustment on accrual of deferred taxes	49,328	61,431
Write-off of financial instruments (mostly related to previous periods)	(38,541)	(35,912)
Impairment of Investment property	(17,088)	(12,437)
Impairment of receivables given to Khrami I, II	(5,959)	(3,585)
Discounting of accounts receivable	(5,777)	(4,755)
Interest capitalized	(4,936)	(2,872)
Derivatives hedging in the Parent Company	4,347	–
Write-off of deferred expenses of the Parent company	(3,884)	(4,035)
Recognition of non-current assets on pensions in the Parent Company	3,605	1,370
Recognition of income in period different from Management accounting	2,215	–
Provision for impairment of accounts receivable	1,361	(8,181)
Gross-up of accounts payable/receivable	473	(6,421)
Impairment of investment in JSC Sangtudinskaya GES-1	113	(132)
Impairment of Goodwill from UAB INTER RAO Lietuva acquisition	–	(6,449)
Other adjustments	877	(2,733)
Total assets per Consolidated Statement of Financial Position	**3,854,388**	**2,447,433**
Investments in associates for reportable segments	**702,991**	**64,566**
Investments in JSC OGK-1	254,579	–
Investment in JSC Stantsiya Ekibastuzskaya GRES-2	147,145	116,111
Investments in JSC TGK-11	45,217	35,516
Investments in JSC PSC	(36,104)	–
Investments in Quartz Group	11,683	–
Investments in JSC Akkuyu NGS	(1,138)	–
Other adjustments	1,635	(70)
Investments in associates and jointly controlled entities per Consolidated Statement of Financial Position	**1,126,008**	**216,123**
Total liabilities for reportable segments	**1,508,136**	**994,393**
Investment in Quartz Group by equity accounting	(377,094)	–
Direct financing from JSC "Mejregionenergostroy"	357,762	216,701
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting	(55,846)	(36,328)
IFRS adjustment on accrual of deferred taxes	28,316	(11,661)
Discounting effect of loans	(13,300)	(13,988)
Parent company pension liabilities	4,697	3,078
Derivatives liabilities in the Parent Company	3,882	–
Recognition of external payables	(2,275)	(2,128)
Equity accounting of associates and jointly controlled entities	1,742	1,030
Unused vacation provision	–	1,914
Gross-up accounts payable/receivable	473	(6,421)
Other adjustments	3,076	(3,464)
Total liabilities per Consolidated Statement of Financial Position	**1,459,569**	**1,143,126**

(in thousands of EUR)

4. Segment information (continued)

Information about geographical areas

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

As at 31 December 2010

	Revenue in the Group entity's jurisdiction	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***	***Total non-current assets based on location of assets***[1]
Russian Federation	696,321	7,164	703,485	2,267,698
Finland (incl. NordPool)	297,091	222,727	519,818	27,767
Armenia	197,837	–	197,837	202,709
Lithuania	184,239	–	184,239	631
Moldova (incl. Transdniestria Republic)	9,316	126,298	135,614	121,779
Georgia	117,483	9,989	127,472	93,141
Belarus	–	1,157	1,157	–
Other	16,526	122,778	139,304	1,116
Kazakhstan	*10,703*	*31,151*	*41,854*	*879*
Turkey	*5,823*	–	*5,823*	*100*
Ukraine	–	*920*	*920*	–
Latvia	–	*33,488*	*33,488*	–
Romania	–	*13,897*	*13,897*	–
China	–	*28,468*	*28,468*	–
Mongolia	–	*9,245*	*9,245*	–
Other	–	*5,609*	*5,609*	*137*
Total	**1,518,813**	**490,113**	**2,008,926**	**2,714,841**

As at 31 December 2009

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

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

(in thousands of EUR)

5. Acquisitions and disposals

During the years 2009 and 2010 the Group has made several acquisitions. Details are presented below:

Acquisition of JSC Industrial Energetics

On 29 October 2010 the Group has acquired 75% of JSC Industrial Energetics, an electricity trading company operating in Moscow, the Russian Federation. The key reason of the acquisition was Group's further expansion of trading activities on the wholesale electricity market. The entity was acquired from the third party. The total contingent consideration was EUR 1.204 million (RUR 51.095 million). Net assets of the entity were recognised at fair values based on statutory financial statements adjusted to IFRS. The fair values of assets and liabilities arising from the acquisition are as follows (EUR thousand):

	Fair values
Property, plant and equipment	24
Intangible assets	2
Deferred tax assets	5
Accounts receivable	7,553
Income tax prepaid	236
Cash and cash equivalents	3,131
Accounts payable and accrued charges	(9,996)
Taxes payable	(366)
Fair value of net assets acquired	**589**
Less: Non-controlling interest (25% of JSC Industrial Energetics net assets)	(148)
Contingent dividends to be received for the 4th quarter 2010	1,764
Fair value of acquired interest in net assets	**2,205**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(1,001)
Total contingent consideration	**1,204**

As at the date of acquisition the Group recognised short-term payable in the amount of EUR 1,204 thousand. No cash consideration as at the reporting date was paid. Cash inflow on the acquisition amounted to EUR 3,131 thousand represented the cash and cash equivalents on the acquired entity on the date of acquisition. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to EUR 1,001 thousand was recognised directly in the consolidated statement of comprehensive income. Contingent dividend receivable in the amount of EUR 1,764 thousand represents the obtained Group's share in the expected distributed net profit of the purchased entity during the fourth quarter 2010.

JSC Industrial Energetics contributed revenues of EUR 38,246 thousand and a net profit of EUR 1,438 thousand to the Group for the period from the date of acquisition to 31 December 2010. If the acquisition had occurred as at 1 January 2010, the estimated contribution to the Group revenue would have been EUR 212,282 thousand, and the estimated contribution to the result for the year ended 31 December 2010 would have been a net profit of EUR 6,746 thousand.

Acquisition of CJSC Electrolutch

On 3 July 2009 the Group has acquired 97.78% of CJSC Electrolutch (Moscow, the Russian Federation), an entity holding a complex of seven office buildings in various stages of completion. Two buildings are completed and rented out. The Group intends to rent out the other buildings when they are completed with the exception of part of one of the buildings which is going to occupy. The total consideration paid by the Group was EUR 73.6 million (RUR 3,231.5 million) including cash spent by the Parent company of EUR 33.5 million (RUR 1,474.8 million) to repay/purchase loans of the acquired subsidiary. The management of the Group considers this acquisition as acquisition of a business. Net assets of the entity were recognised at fair value measured as at the date close to the date of acquisition. The fair values of the obtained investment properties were used as their deemed cost at the date of acquisition.

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

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

(in thousands of EUR)

5. Acquisitions and disposals (continued)

Acquisition of CJSC Electrolutch (continued)

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

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

Acquisition of LLP Kazenergoresurs and LLP Nedra Kazakhstana

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

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

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

Cash outflow on the acquisition amounted to EUR 1,942 thousand (purchase consideration in the amount of EUR 2,478 thousand net of cash and cash equivalents in the entity acquired in the amount of EUR 536 thousand). Goodwill arising on the acquisition of LLP Kazenergoresurs amounted to EUR 1,413 thousand. The key reason of the acquisition was Group's further expansion of trading activities on the territory of Kazakhstan.

Acquisition of JSC TGK-11

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

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

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

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

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

(in thousands of EUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC TGK-11 (continued)

Cash outflow on the acquisition in June 2009 amounted to EUR 39,131 thousand. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to EUR 57,664 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.

On 29 December 2009 the Group received additional 16.25% of JSC TGK-11 shares in trust management. The transfer did not result in the termination of JSC RusHydro rights of ownership for these shares or transfer of significant influence to the Group.

In February 2010 the Parent company purchased 2.79% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 129 million (EUR 3,228 thousand). Fair values of assets and liabilities arising from the acquisition equalled to EUR 9,248 thousand. As a result of the purchase the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of acquiree amounting to EUR 6,020 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.

In March 2010 the Group made a mandatory offer to other shareholders of JSC TGK-11 to purchase 345 billion of shares of JSC TGK-11 (67.31%) with a price of RUR 0.0167 per a share. As a result of the mandatory offer 1,393,875 thousand or 0.27% of shares of JSC TGK-11 were purchased by the Group for a total consideration of RUR 24.3 million (EUR 619 thousand). Fair values of assets and liabilities arising from the acquisition equalled to EUR 901 thousand. As a result of the purchase the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of acquiree amounting to EUR 282 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.

In August 2010 the Group additionally purchased 2.67% of the ordinary shares of JSC TGK-11 (through the acquisition of 16,79% interest in JSC TGK-11 Holding which owns 15,89% interest in the share capital of JSC TGK-11) for a total consideration of RUR 336 million (EUR 8,553 thousand). Fair values of assets and liabilities arising from the acquisition equalled to EUR 8,843 thousand. As a result of the purchase the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to EUR 290 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.
Fair values of acquired assets and liabilities described above were determined by Group management based on audited IFRS financial statements of the acquired entity for the year 2010.

In September 2010 the Group additionally received the 11.2% of ordinary shares of JSC TGK-11 under the trust management agreements with JSC FGC UES. The transfer does not represent ownership or kind of ownership rights for the Group.

Thus, as at 31 December 2010 the Group has 35.63% of JSC TGK-11 in ownership and 27.45% under the trust management agreements.

Acquisition of JSC OGK-1

On 21 December 2010 as a result of the additional issue of shares the Group acquired a 29.03% interest in JSC OGK-1, an electricity and heat power generating company operating in several regions of the Russian Federation. The total consideration paid by the Group was EUR 525.310 million (RUR 21,278 million). The ownership of JSC OGK-1 represents an investment in the associate.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on audited IFRS financial statements of the acquired entity for 2010 year.

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

	Fair values
Total of entities' net assets	**2,680,744**
Acquired interest in net assets	**778,220**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(252,910)
Total purchase consideration	**525,310**

Cash outflow on the acquisition amounted to EUR 525,310 thousand. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to EUR 252,910 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.

(in thousands of EUR)

5. Acquisitions and disposals (continued)

In March 2009 the Group signed management agreements with JSC RusHydro and JSC FGC UES, which stated that the rights for shares of JSC OGK-1 were transferred to JSC INTER RAO UES for asset management in favour of JSC RusHydro and JSC FGC UES. The transfer did not result in the termination of JSC RusHydro and JSC FGC UES rights of ownership for these shares or transfer of significant influence to the Group. As a result of the additional emission of shares as at 31 December 2010 the Group's possessed 42.2% of JSC OGK-1 under the above management agreements.

Acquisition of Quartz Group

On 4 July 2010 the Group acquired a 50.01% interest in Quartz Group, a leader of the Russian engineering market specialising in construction of new turn key power sites and renovation / maintenance of existing energy sector facilities of infrastructure. The total consideration paid by the Group was EUR 8 million (RUR 312 million). The ownership of Quartz Group represents an investment in the jointly controlled entity.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on audited IFRS financial statements of the acquired entity for 2010 year.

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

	Fair values
Total of entities' net assets	**9,367**
Acquired interest in net assets	**4,693**
Goodwill	3,307
Total purchase consideration	**8,000**

Cash outflow on the acquisition amounted to EUR 8,000 thousand. The goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to EUR 3,307 thousand was recognised in the cost of investment in associates and jointly controlled entities in the consolidated statement of financial position. The key reason of the acquisition was Group's expansion of engineering activities.

Acquisition of JSC Saint-Petersburg Sale Company

On 29 September 2010 the Group purchased 24.99% of ordinary shares and 37.03% of preference shares of JSC Saint-Petersburg Sale Company (JSC PSC), an electricity trading company operating in Saint Petersburg, the Russian Federation.

The total consideration was EUR 35.816 million (RUR 1,472 million) including EUR 28.560 million (RUR 1,174 million) the consideration for the 24.99% of ordinary shares and EUR 7.256 million (RUR 298 million) the consideration for the 37.03% of preference shares. The consideration included cash payment in the amount of EUR 4.868 million (RUR 200 million) and contingent consideration in the amount of EUR 30.948 million (RUR 1,272 million) depending on the decision of the Board of directors to distribute the dividends as the result of the year 2010. The purchased preference shares are non-voting. The ownership of 24.99% of ordinary shares of JSC PSC represents an investment in an associate entity.

Fair values of property, plant and equipment and intangible assets were determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on audited IFRS financial statements of the acquired entity for 2010 year.

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

	Fair values
Total of entities' net assets	**66,858**
Acquired interest in net assets	**16,708**
Goodwill	19,108
Total consideration	**35,816**

(in thousands of EUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Saint-Petersburg Sale Company (continued)

Cash outflow on the acquisition amounted to EUR 4,868 thousand. The contingent consideration in the amount of EUR 30,948 thousand was recognised as the short-term payable in the consolidated statement of financial position. The goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to EUR 19,108 thousand was recognised in the cost of investment in associates and jointly controlled entities in the consolidated statement of financial position. The key reason of the acquisition was Group's further expansion of trading activities on the wholesale electricity market.

On 12 August 2010 the Group signed trust management agreement with JSC RusHydro, according to which it receives in trust management 67.08% of the ordinary shares and 28.98% of the preference shares of JSC PSC. The transfer does not represent ownership or kind of ownership rights for the Group.

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

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

Disposal of the Group entities

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

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

(in thousands of EUR)

6. Property, plant and equipment

	Land and buildings	Constructions	Plant and equipment	Other	Constructions in progress	Total
Cost/Revalued amount						
Balance at 1 January 2009	**264,664**	**194,869**	**688,971**	**52,320**	**241,061**	**1,441,885**
Reclassification	6,936	27,895	(15,770)	(19,061)	–	–
Revaluation reserve	76,657	28,583	152,215	7,343	(110)	264,688
Revaluation loss (impairment provision)	(44,386)	(77,686)	(137,195)	(9,701)	(129,690)	(398,658)
Elimination of depreciation and impairment	(27,332)	(30,003)	(179,659)	(9,293)	(129)	(246,416)
Reversal of impairment provision	8,594	3,130	2,210	608	–	14,542
Additions	12	(368)	518	14,612	265,013	279,787
Transfers	31,301	39,448	78,263	7,420	(156,432)	–
Disposals	(748)	(1,352)	(778)	(1,336)	(8,351)	(12,565)
Acquisition of Group entities	–	143	41	149	47,882	48,215
Disposals of Group entities	–	–	–	(27)	–	(27)
Translation difference	(12,072)	(19,283)	(33,755)	(3,178)	(14,474)	(82,762)
Balance at 31 December 2009	**303,626**	**165,376**	**555,061**	**39,856**	**244,770**	**1,308,689**
Including PPE under finance lease	–	3,114	39,976	40	–	43,130
Balance at 31 December 2009	**303,626**	**165,376**	**555,061**	**39,856**	**244,770**	**1,308,689**
Gross-up	(2,175)	(56)	1,217	363	–	(651)
Balance at 1 January 2010	**301,451**	**165,320**	**556,278**	**40,219**	**244,770**	**1,308,038**
Reclassification	39	18	3	(60)	–	–
Additions	1,515	1,966	104	726	178,351	182,662
Transfers	13,500	55,809	89,967	8,270	(167,546)	–
Transfers from investment property	19,392	–	–	–	19,333	38,725
Disposals	(446)	(1,884)	(3,051)	(1,409)	(7,707)	(14,497)
Acquisition of Group entities	–	–	–	24	–	24
Translation difference	22,571	15,049	44,220	2,763	20,466	105,069
Balance at 31 December 2010	**358,022**	**236,278**	**687,521**	**50,533**	**287,667**	**1,620,021**
Including PPE under finance lease	1,100	4,459	43,004	15,192	–	63,755
Depreciation and impairment losses						
Balance at 1 January 2009	**(24,119)**	**(18,953)**	**(129,541)**	**(12,009)**	**(159)**	**(184,781)**
Reclassification	(313)	(3,927)	(820)	5,060	–	–
Impairment loss recognised during the year	–	–	–	–	–	–
Elimination of depreciation and impairment	27,332	30,003	179,659	9,293	129	246,416
Other additions of DDA						–
Depreciation charge	(6,642)	(10,232)	(56,044)	(4,350)	–	(77,268)
Disposals	181	300	147	558	–	1,186
Disposals of Group entities	–	–	–	21	–	21
Translation difference	1,134	2,731	6,295	759	32	10,951
Balance at 31 December 2009	**(2,427)**	**(78)**	**(304)**	**(668)**	**2**	**(3,475)**
Including PPE under finance lease	–	–	–	–	–	–
Balance at 31 December 2009	**(2,427)**	**(78)**	**(304)**	**(668)**	**2**	**(3,475)**
Gross-up	2,175	56	(1,217)	(363)	–	651
Balance at 1 January 2010	**(252)**	**(22)**	**(1,521)**	**(1,031)**	**2**	**(2,824)**
Reclassification	–	–	15	(15)	–	–
Depreciation charge and Impairment loss	(8,197)	(11,084)	(66,069)	(5,637)	(226)	(91,213)
Disposals	13	26	152	266	–	457
Translation difference	(37)	(112)	(193)	(100)	(2)	(444)
Balance at 31 December 2010	**(8,473)**	**(11,192)**	**(67,616)**	**(6,517)**	**(226)**	**(94,024)**
Including PPE under finance lease	–	(457)	(5,756)	(392)	–	(6,605)
Net book value						
At 1 January 2009	**240,545**	**175,916**	**559,430**	**40,311**	**240,902**	**1,257,104**
At 31 December 2009	**301,199**	**165,298**	**554,757**	**39,188**	**244,772**	**1,305,214**
At 31 December 2010	**349,549**	**225,086**	**619,905**	**44,016**	**287,441**	**1,525,997**

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

The category Land and buildings includes land in the amount of EUR 9,709 thousand (31 December 2009: EUR 8,495 thousand).

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operations and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to EUR 18,839 thousand (including EUR 14,040 thousand for JSC "INTER RAO UES") as at 31 December 2010 (31 December 2009: EUR 44,420 thousand).

(in thousands of EUR)

6. Property, plant and equipment (continued)

(a) Revaluation and impairment

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

31 December 2009

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

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

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

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

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

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

JSC INTER RAO UES

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

- Applied WACC discount rate was 13.4% per annum;
- Regulated electricity sales tariffs and electricity market prices are expected to increase by 13%-21% per annum for 2011-2015 years and subsequently by 3%-4% per annum;
- Gas purchase prices are expected to increase by 13%-21% per annum for 2011-2015 years and subsequently by 3%-5% per annum; the growth rate was forecasted with a view that internal market gas prices will approach export gas prices by 2015 year;
- Capacity prices are expected to increase by 6%-9% per annum for 2011-2015 years and subsequently by 3%-5% per annum.

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

JSC Moldavskaya GRES

For the purposes of the revaluation of property, plant and equipment of JSC Moldavskaya GRES as at 31 December 2009, management made the following assumptions and estimates related to new markets:

- Applied WACC discount rate was 22.1% per annum;
- Electricity sales (output) tariff is expected to increase by approximately 9% per annum until 2014 and by 4% per annum from 2015 till 2023 for export sales to Moldova and approximately by 4% per annum until 2023 for export sales to Romania;
- The cost of gas purchases are currently regulated by decrees of the President of Transniestria Republic and are at tariffs lower than those available in the general market; the forecast for the period from 2011 till 2015 was based on management estimations of such tariffs increasing by 4.5%-8% per annum with subsequent growth of approximately 3% per annum.

(in thousands of EUR)

6. Property, plant and equipment (continued)

(a) Revaluation and impairment (continued)

JSC Elektricheskiye seti Armenii

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

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

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

31 December 2010

As at 31 December 2010 the Group performed an assessment of the recoverable amount of property, plant and equipment. For these purposes the profitability tests performed during revaluation of the property, plant and equipment performed by the Group as at 31 December 2009 were renewed in accordance with the changes in the key assumptions used for the revaluation till the reporting date. Further details on the key assumptions are set out below.

JSC INTER RAO UES

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

Due to the changing in WACC discount rate and establishing in Russian Federation in 2010 the new rules for capacity prices determination the estimations and assumptions, used during the revaluation of the property, plant and equipment performed as at 31 December 2009 were significantly changed. Therefore to assess the recoverable amount of property, plant and equipment of those branches the full scope profitability test was performed. The following key assumptions were used:

- Applied WACC discount rate was 14.6% per annum (as at 31 December 2009 – 13.4%);
- Regulated electricity sales tariffs and electricity market prices are expected to increase by 11%-30% per annum for the period 2011-2017 and 4%-9% subsequently;
- Gas purchase prices are expected to increase by 11%-30% per annum for the period 2011-2017 and 4%-9% subsequently;
- Capacity prices for Ivanovo Thermal-gas Plant are expected to increase by 6%-47% (due to the running of Block 2 new capacity) per annum for the period 2011-2014 years and 3%-4% subsequently;
- Capacity prices for North-West Thermal Power Plant, Sochinskaya TPS and Kaliningradskaya TEC-2 are expected to increase by 1%-10% per annum for the period 2011-2021.

As a result of the profitability test there was no impairment revealed for these branches.

JSC Electricheskiye seti Armenii,

In 2010, based on physical observation performed carrying amount of 1,219 units of fixed assets due to its technical obsolescence were impaired totaling EUR 177 thousand. On the same basis 170 units of constructions in progress were impaired for a total amount of EUR 226 thousand.

Other entities

For the purposes of the assessment of the recoverable amount of the property, plant and equipment of Mtkvari Energy LLC, JSC Telasi, JSC Moldavskaya GRES and CJSC Electrolutch it was confirmed that estimated results as well as macroeconomics indicators and future estimations for the year 2010 used in the profitability tests for the purposes of the revaluation performed as at 31 December 2009 are in line with actual figures available as at 31 December 2010, therefore no impairment indicators were revealed.

(b) Pledges

Properties as at 31 December 2010 with a carrying amount of EUR 94 thousand (31 December 2009: EUR 74 thousand) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several of its loans.

(in thousands of EUR)

7. Investment properties

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

At 1 January 2009	–
Acquisition of subsidiary	66,808
Additions	1,312
Impairment loss	(12,437)
Depreciation charge	(257)
Translation difference	815
At 31 December 2009	**56,241**
At 1 January 2010	**56,241**
Additions	9,318
Transfer to property, plant and equipment	(38,725)
Depreciation charge	(491)
Impairment loss	(3,709)
Translation difference	4,286
At 31 December 2010	**26,920**

In 2009 the Group recorded investment properties as a result of the acquisition of its new subsidiary CJSC Electrolutch (see Note 5). The acquired properties represent a complex of seven office buildings located in Moscow in various stages of completion which will be rented out. One of these buildings is to be partially owner-occupied and partially rented out. The part which is for the own purposes of the Group is recognised as property, plant and equipment, the part which will be rented out is accounted as an investment property.

(a) Deemed cost

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

Investment properties with a carrying value of EUR 24,421 thousand represent two buildings fully completed and in use as at 31 December 2010 (as at 31 December 2009 EUR 24,866 thousand). Investment properties with a carrying value of EUR 500 thousand as at 31 December 2010 (as at 31 December 2009 EUR 5,759 thousand) represent two projects of construction of office and supported buildings which, in accordance with the amendment made to IAS 40 *Investment Property* effective since 1 January 2009, were classified as investment property.

As at 31 December 2010 the amount of fair market value of the investment properties approximated its carrying value. The fair market value was determined by using discounted cash flows approach using the assumptions as described below in Note 7 (b).

(b) Impairment

31 December 2009

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

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

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

(in thousands of EUR)

7. Investment properties (continued)

(b) Impairment (continued)

31 December 2010

As at 31 December 2010 the Group performed an assessment of the recoverable amount of the investment properties of CJSC Electrolutch. For this purpose the following key assumptions were used in the profitability test:

- The forecast period was 6 years;
- The initial base rental fee is USD 840 per square meter with subsequent growth of 5%-8% per annum;
- The expected portion of rental area utilisation applied equaled 95%;
- The discount rate used for forecast period was 15.2%;
- The capitalisation rate used for the calculation of the terminal value was 9.5%.

Based on the applied assumptions, management concluded the recoverable amount of each building as a separate cash generating unit.

As a result of the analysis the Group recognized additional impairment charge of EUR 3,709 thousand, net of impairment recovery EUR 4,229 thousand (see Note 24).

The key factors which caused the necessity to recover the previously recognised impairment and to recognise the impairment loss in respect of the above office buildings are respectively: increase of the base rent rate determined by new rent agreements, and increase of capital expenditures needed for completion of reconstruction of the office buildings. In management's opinion, the described above impairment effects represent the best estimate of investment properties as a result of change of economic conditions compare to the year 2009.

(c) Transfer to property, plant and equipment

As at 31 December 2010 the Group changed the useful assignment of certain properties so that those are designated to be own-occupied. Accordingly, these buildings with the total carrying value of EUR 38,725 thousand were transferred from investment property to property, plant and equipment.

Total rental income received from the investment property for the year 2010 was EUR 3,947 thousand (for the year 2009: EUR 2,078 thousand).

As at 31 December 2010 six short-term rental agreements were signed in respect of the investment properties. Although the two contracts contain significant conditions of prolongation of the agreements for periods up to 2015 and 2018, the rental payments due under the contracts are set in accordance with additional agreements and only for periods up to one year.

As at 31 December 2010 total expected in 2011 income from in force signed additional agreements to rental contracts is equal EUR 2,982 thousand.

As at 31 December 2010 the Group has contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements, amounting to EUR 190 thousand (as at 31 December 2009: EUR 6,454 thousand).

(in thousands of EUR)

8. Intangible assets

	Goodwill	*Software*	*Other*	*Total*
Cost				
Balance at 1 January 2009	34,247	6,703	410	41,360
Acquisition of Group entities	1,413	–	–	1,413
Additions	–	2,517	101	2,618
Disposals	–	(73)	–	(73)
Translation difference	34	(646)	(14)	(626)
Balance at 31 December 2009	**35,694**	**8,501**	**497**	**44,692**
Balance at 1 January 2010	35,694	8,501	497	44,692
Acquisition of Group entities	–	1	1	2
Additions	–	3,845	761	4,606
Disposals	–	(3)	–	(3)
Translation difference	134	713	36	883
Balance at 31 December 2010	**35,828**	**13,057**	**1,295**	**50,180**
Amortisation and impairment				
Balance at 1 January 2009	–	(2,077)	(153)	(2,230)
Amortisation charge	–	(1,506)	(148)	(1,654)
Impairment losses	(7,862)	–	–	(7,862)
Disposals	–	69	–	69
Translation difference	(55)	200	3	148
Balance at 31 December 2009	**(7,917)**	**(3,314)**	**(298)**	**(11,529)**
Balance at 1 January 2010	(7,917)	(3,314)	(298)	(11,529)
Amortisation charge	–	(2,117)	(195)	(2,312)
Disposals	–	3	–	3
Translation difference	(111)	(295)	(20)	(426)
Balance at 31 December 2010	**(8,028)**	**(5,723)**	**(513)**	**(14,264)**
Net book value				
At 1 January 2010	**27,777**	**5,187**	**199**	**33,163**
At 31 December 2010	**27,800**	**7,334**	**782**	**35,916**

The amortisation charge is included in operating expenses in the consolidated statement of comprehensive income.

Impairment of goodwill

Management uses value in use as a recoverable amount compared with carrying amount while assessing impairment of goodwill.

31 December 2009

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

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

The impairment test was based on the following key assumptions:

- UAB INTER RAO Lietuva is carrying out trading operations with electricity, including import deliveries from electricity system of the Russian Federation to the electricity market of the Lithuanian Republic and export deliveries from the electricity market of the Lithuanian Republic to other countries of Baltic region.
- According to electricity demand projections, the demand would increase annually at average rate of 3% and would reach approximately 9.9 GWth by the year 2019, from the current level of approximately 8.0 GWth. It is expected that starting from the year 2010 till the year 2019 the annual volume of electricity imported to Lithuania would grow to 6 GWth, and that 81 % of that volume could be covered by deliveries carried out by UAB INTER RAO Lietuva.
- This volume of deliveries is assumed to provide gross margin of 9.3%, as the above mentioned volume allows UAB INTER RAO Lietuva to carry out electricity sales in peak periods, when higher profitability is achieved.
- The discount factor used for the impairment test performed by management was 17.9%

(in thousands of EUR)

8. Intangible assets (continued)

Impairment of goodwill (continued)

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

The goodwill which arose on acquisition of LLP Kazenergoresurs and its subsidiary LLP Nedra Kazakhstana amounted as at date of acquisition to EUR 1,413 thousand (see Note 5) was fully impaired as at the end of the reporting period to the combined and consolidated statement of comprehensive income. The main reason for its impairment was unfavourable change in customer's base after the date of acquisition.

31 December 2010

The carrying value of goodwill as at 31 December 2010 comprised goodwill which arose on the acquisition of Energospetsserviceobslyzhivanie in 2005 in the amount of EUR 252 thousand; on the acquisition of UAB INTER RAO Lietuva in 2008 in the amount of EUR 33,997 thousand and on the acquisition of LLP Kazenergoresurs in 2009 in the amount of EUR 1,579 thousand.

The accumulated impairment of goodwill as at 31December 2010 represents the loss caused by the impairment of carrying amount of the goodwill arose on the acquisition of UAB INTER RAO Lietuva in the amount of EUR 6,449 thousand and LLP Kazenergoresurs in the amount of EUR 1,579 thousand recognized as at 31 December 2009.

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

As at 31 December 2010 the Group carried out an impairment test on the goodwill related to UAB INTER RAO Lietuva. For the purpose of impairment testing the goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit.

The impairment test was based on the following key assumptions:

- UAB INTER RAO Lietuva is carrying out trading operations with electricity, including import deliveries from electricity system of the Russian Federation to the electricity market of the Lithuanian Republic and export deliveries from the electricity market of the Lithuanian Republic to other countries of Baltic region and Republic of Belarus;
- Starting from 2010, the electricity market of the Lithuanian Republic experiences significant changes due to the closure of the Ignalina Nuclear Power Plant with effect from the end of 2009. The Ignalina plant was the main electricity generating facility within Lithuania and the Baltic region, providing up to 70% of electricity generation in that region. The electricity deficit arising due to the closure of Ignalina plant will be covered partially by additional production by the Lithuanian power stations and partially by additional imports to the Lithuanian electricity system from the neighbour systems, mostly from the electricity system of the Russian Federation, which have considerable export potential.

According to electricity demand projections, the demand would increase annually at average rate of 2% and would reach approximately 11.5 GWth by the year 2019, from the current level of approximately 9.6 GWth. It is expected that starting from the year 2010 till the year 2019 the annual volume of electricity imported to Lithuania would grow to 7 GWth, and that 80% of that volume could be covered by deliveries carried out by UAB INTER RAO Lietuva;

- This volume of deliveries is assumed to provide gross margin of 12.4%, as the above mentioned volume allows UAB INTER RAO Lietuva to carry out electricity sales in peak periods, when higher profitability is achieved;
- The discount factor used for the impairment test performed by management was 17.9% (as at 31 December 2009 - 17.9%).

Based on the assumptions described above, management considers that as at 31 December 2010 there are no indicators of its impairment.

(in thousands of EUR)

9. Investments in associates and jointly controlled entities

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

	Status	Country	Voting 31 December 2010	Voting 31 December 2009
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.00%	50.00%
UAB Alproka	Associate	Lithuania	49.99%	49.99%
JSC Kambarata HPP-1	Jointly controlled entity	Kyrgyz Republic	50.00%	50.00%
JSC Industrial Power Company	Jointly controlled entity	Russian Federation	50.00%	50.00%
JSC TGK-11	Associate	Russian Federation	35.63%	29.90%
LLC Interenergoeffect	Jointly controlled entity	Russian Federation	50.00%	–
LLC Power Efficiency Centre INTER RAO UES	Jointly controlled entity	Russian Federation	50.00%	–
Quartz Group	Jointly controlled entity	Russian Federation	50.10%	–
LLC InterRAO-WorleyParsons	Jointly controlled entity	Russian Federation	51.00%	–
JSC PSC	Associate	Russian Federation	24.99%	–
JSC OGK-1	Associate	Russian Federation	29.03%	–
RUS Gas Turbines Holding B.V.	Associate	Netherlands	25.00%	–
JSC Akkuyu NGS	Associate	Turkey	33.33%	–

	JSC OGK-1	*JSC Stantsiya Ekibastuzskaya GRES-2*	*JSC TGK-11*	*JSC PSC*	*JSC Akkuyu NGS*	*Quartz Group*	*Other*	*Total*
Carrying value at 1 January 2009	**–**	**104,626**	**–**	**–**	**–**	**–**	**191**	**104,817**
Additions	–	–	96,794	–	–	–	665	**97,459**
Share of revaluation of property, plant and equipment and other related equity movements	–	32,690	–	–	–	–	–	**32,690**
Share of profit after tax	–	2,129	3,003	–	–	–	89	**5,221**
Dividends received from associate and jointly controlled entities	–	(2,902)	–	–	–	–	–	**(2,902)**
Translation difference	–	(20,432)	(693)	–	–	–	(37)	**(21,162)**
Carrying value 31 December 2009	**–**	**116,111**	**99,104**	**–**	**–**	**–**	**908**	**216,123**
Carrying value at 1 January 2010	**–**	**116,111**	**99,104**	**–**	**–**	**–**	**908**	**216,123**
Additions	778,220	7,499	18,992	35,816	25,054	8,000	1,683	**875,264**
Share of reversal of property, plant and equipment revaluation reserve	–	(3,014)	–	–	–	–	–	**(3,014)**
Share of profit/(loss) after tax	590	17,576	(1,346)	2,071	–	3,952	91	**22,934**
Dividends received from associate and jointly controlled entities	–	(1,911)	–	(5,925)	–	–	(296)	**(8,132)**
Translation difference	3,326	10,884	8,946	669	(761)	(269)	38	**22,833**
Carrying value at 31 December 2010	**782,136**	**147,145**	**125,696**	**32,631**	**24,293**	**11,683**	**2,424**	**1,126,008**

JSC OGK-1

On 21 December 2010 the Group acquired a 29.03% interest in JSC OGK-1 (see Note 5). The following is summarised financial information in respect of the jointly controlled entity JSC OGK-1:

	The year ended 31 December 2010
Non-current assets	2,442,939
Current assets	615,617
Non-current liabilities	(223,418)
Current liabilities	(140,905)
Revenue	43,280
Profit for the period	2,032

(in thousands of EUR)

9. Investments in associates and jointly-controlled entities (continued)

JSC OGK-1 (continued)

On 15 February 2008 JSC OGK-1 and TNK-BP International Ltd signed an Agreement to jointly operate the existing units at the Nizhnevartovskaya power station and to finance and construct a third unit at that power station with a capacity of 800 MW. According to the Agreement, JSC OGK-1 has granted a written call option to TNK-BP which gives TNK-BP the right to buy additional 25% minus two shares in NVGRES Holding Ltd. at a determinable price at a future date, which is defined as any day within 12 months after the date when the third unit passes the performance tests. As the exercise price under this option is expected to be equal to fair value at the date of exercise, there is no fair value attributed to the option. As at 31 December 2010, the option was not yet exercisable.

As at 31 December 2010 the fair value of the Group share in the net assets of JSC OGK-1 based on market quotations of the shares equalled to EUR 573,947 thousand; however, no impairment loss have been identitied in respect of the investment into JSC OGK-1 and after the balance sheet date the Group increased its share in JSC OGK-1 to 72.02%. More details are provided in Note 34.2.

JSC Stantsiya Ekibastuzskaya GRES-2

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

	The year ended 31 December 2010	***The year ended 31 December 2009***
Non-current assets	353,229	277,247
Current assets	23,371	25,590
Non-current liabilities	(70,802)	(65,778)
Current liabilities	(11,508)	(4,837)
Revenue	123,424	65,418
Profit for the period	35,152	4,258

On July 2010 the Board of directors of Stantsiya Ekibastuzskaya GRES-2 agreed the additions issue of shares in the amount of EUR 14,998 thousand (KZT 3,000,000 thousand). During the year 2010 the additional share issue was fully distributed in equal proportions between the Group and the other shareholder.

As at 31 December 2010 the Group’s share in the investment commitments of Stantsiya Ekibastuzskaya GRES-2 was EUR 6,795 thousand (as at 31 December 2009 – EUR 25,258 thousand).

JSC TGK-11

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

	The year ended 31 December 2010	***The year ended 31 December 2009***
Non-current assets	439,086	404,370
Current assets	72,338	81,926
Non-current liabilities	(96,596)	(66,672)
Current liabilities	(62,047)	(88,172)
Revenue	479,495	97,508
(Loss) / profit for the period	(3,778)	10,043

As at 31 December 2010 fair value of the Group share in the net assets of JSC TGK-11 based on market quotations of the shares equalled to EUR 87,888 thousand (as at 31 December 2009: EUR 63,259 thousand); However, no impairment loss have been identitied in respect of the investment into JSC TGK-11 and after the balance sheet date the Group increased its share in JSC TGK-11 to 65.53%. More details are provided in Note 34.2.

JSC PSC

On September 2010 the Group purchased 24.99% JSC PSC (see Note 5). The following is summarised financial information in respect of JSC PSC:

	The year ended 31 December 2010
Non-current assets	66,486
Current assets	171,264
Current liabilities	(185,069)
Revenue	467,309
Profit for the period	8,288

(in thousands of EUR)

9. Investments in associates and jointly-controlled entities (continued)

JSC Akkuyu NGS

On December 2010 the Group has established in Turkey together with JSC Rosenergoatom Concern and CJSC Atomstroyexport a new associate entity, JSC Akkuyu NGS. The Goup's share in the newly-established entity was 33.33%. The company was established in accordance with the agreement signed between the Government of the Russian Federation and the Government of the Republic of Turkey on cooperation in the construction and operation of a nuclear power plant in Turkey.

The following is summarised financial information in respect of *JSC Akkuyu NGS*:

	The year ended 31 December 2010
Current assets	72,886

As at 31 December 2010 the Group had not paid its share in share capital of JSC Akkuyu NGS – the amount of contribution into the share capital of the entity of EUR 24,293 thousand including foreign currency translation reserve in the amount of EUR 761 thousand was recognised as liability in the consolidated statement of financial position.

Quartz Group

On 4 July 2010 the Group acquired a 50.01% interest in Quartz Group (see Note 5). The following is summarised financial information in respect of Quartz Group:

	The year ended 31 December 2010
Non-current assets	326,023
Current assets	71,749
Non-current liabilities	(277,149)
Current liabilities	(103,685)
Revenue	109,330
Profit for the period	7,888

LLC Interenergoeffect

On 2 March 2010 JSC INTER RAO UES and Fenice S.p.A. (100% subsidiary of Electricité de France) created a jointly-controlled entity for the purpose of realization of energy efficiency and energy conservation projects. On 2 June 2010 this entity, LLC "INTERENERGOEFFECT", was registered in the Russian Federation.

The following is summarised financial information in respect of LLC Interenergoeffect:

	The year ended 31 December 2010
Non-current assets	5
Current assets	198
Current liabilities	(25)
Loss for the period	(20)

LLC InterRAO-WorleyParsons

On 31 August 2010 the Group and WORLEYPARSONS EA HOLDINGS PTY LIMITED established a jointly controlled entity, LLC InterRAO-WorleyParsons. The Group's share in the newly-established entity was 51%. The main objective of the entity is transfer of high-performance technologies in electricity engineering in the Russian Federation and technical support in projects of JSC INTER RAO UES in the Russian Federation and abroad.

(in thousands of EUR)

9. Investments in associates and jointly-controlled entities (continued)

LLC InterRAO-WorleyParsons (continued)

The following is summarised financial information in respect of LLC InterRAO-WorleyParsons:

	The year ended 31 December 2010
Non-current assets	44
Current assets	777
Current liabilities	(62)
Loss for the period	(184)

As at 31 December 2010 the Group had paid its share in share capital of LLC InterRAO-WorleyParsons in the amount of EUR 248 thousand, the rest amount of EUR 241 thousand including foreign currency translation reserve in the amount of EUR 8 thousand had not been paid as at the reporting date and was recognised by the Group as liability in the Consolidated statement of financial position.

LLC Power Efficiency Centre INTER RAO UES

On 5 October 2010 the Group established a new jointly controlled entity, LLC Power Efficiency Centre INTER RAO UES. The Group's share in the newly-established entity was 50%. The newly-established company will be the unitary centre responsible for realization, coordination and control of energy efficiency and energy conservation projects.

The following is summarised financial information in respect of LLC Power Efficiency Centre INTER RAO UES:

	The year ended 31 December 2010
Non-current assets	224
Current assets	6,371
Current liabilities	(4,743)
Loss for the period	(372)

RUS Gas Turbines Holding B.V.

On December 2010 the Group has established together with General Electric and The State Corporation Russian Technologies a new associate entity, RUS Gas Turbines Holding B.V. The Group's share in the newly-established entity was 25%. The company was established to participate in joint venture to produce and sale of high-performance industrial gas turbines in the Russian Federation.

The following is summarised financial information in respect of RUS Gas Turbines Holding B.V.

	The year ended 31 December 2010
Current assets	36

10. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

(in thousands of EUR)

10. Deferred tax assets and liabilities (continued)

(a) Recognised deferred tax assets and liabilities (continued)

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax assets		*Deferred tax liabilities*	
	31 December 2010	***31 December 2009***	***31 December 2010***	***31 December 2009***
Property, plant and equipment	14,535	20,452	(18,589)	(12,494)
Investment property	–	–	(3,573)	(7,448)
Investments in associates and jointly controlled entities	257	–	(51,630)	(22,927)
Other non-current assets	1,257	–	(12,601)	–
Trade and other receivables	8,480	6,486	–	–
Short-term payables and accrued charges	15,283	1,225	(82)	(118)
Tax loss carry-forwards	549	789	1,007	329
Other	2,126	4,772	(694)	(247)
Tax assets/(liabilities)	**42,487**	**33,724**	**(86,162)**	**(42,905)**
Set off of tax	(9,189)	(7,424)	9,189	7,424
	33,298	**26,300**	**(76,973)**	**(35,481)**

(b) Unrecognised deferred tax assets

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

	31 December 2010	***31 December 2009***
Deductible temporary differences (see Note 26)	15,700	32,642
	15,700	**32,642**

Deductible temporary differences mainly relate to property, plant and equipment of CJSC International Power Corporation and will be expired in 2011 due to sale of the entity. Deferred tax assets have not been recognised in respect of these items because in management's view it is not probable that future taxable profit will be available in the respective Group entity against which the Group can utilize the benefits.

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

Deferred tax assets:

	1 January 2009	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI***	***Acquisition / disposal of Group entities***	***31 December 2009***
Property, plant and equipment	3,551	54,043	375	(42,682)	(12)	15,275
Investment in associate and jointly controlled entity	36	(34)	(2)	–	–	–
Trade and other receivables	3,091	2,267	(85)	–	–	5,273
Short-term payables and accrued charges	440	824	(39)	–	–	1,225
Other items	554	4,051	(52)	(26)	–	4,527
Tax loss carry-forwards	1,090	(1,054)	(36)	–	–	–
	8,762	**60,097**	**161**	**(42,708)**	**(12)**	**26,300**

	1 January 2010	***Recognised in profit and loss***	***Recognised in OCI (FCTR)***	***Recognised in OCI***	***31 December 2010***
Property, plant and equipment	15,275	(5,594)	1,270	–	10,951
Investment in associate and jointly controlled entity	–	122	135	–	257
Trade and other receivables	5,273	(623)	357	–	5,007
Short-term payables and accrued charges	1,225	2,726	115	10,913	14,979
Other items	4,527	(2,640)	332	(115)	2,104
	26,300	**(6,009)**	**2,209**	**10,798**	**33,298**

(in thousands of EUR)

10. Deferred tax assets and liabilities (continued)

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

Deferred tax liabilities:

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

	1 January 2010	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*31 December 2010*
Property, plant and equipment	(7,319)	(7,224)	(465)	(15,008)
Investment property	(7,449)	4,444	(568)	(3,573)
Investment in associate and jointly controlled entity	(22,926)	(26,191)	(2,512)	(51,629)
Other non-current assets	–	(13,101)	500	(12,601)
Other items	2,213	3,153	32	5,398
Tax loss carry-forwards	–	375	65	440
	(35,481)	**(38,544)**	**(2,948)**	**(76,973)**

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

A deferred tax asset in the amount of EUR 10,798 thousand was recognised in other comprehensive income in relation to the hedge reserves recognised in RAO Nordic Oy in the amount EUR 10,913 thousand and in the Parent company in the amount of EUR (115) thousand as at 31 December 2010 (as at 31 December 2009: EUR (26) thousand).

Included in the deferred tax liability recognised in profit and loss during the year 2010 the amount of EUR 13,101 thousand represent the deferred tax expense in relation to the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 16).

The Group has not recognised deferred tax liabilities in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2010 and 31 December 2009, temporary tax differences amounted to EUR 77,010 thousand, EUR 145,694 thousand.

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

	31 December 2010	*31 December 2009*
Deferred tax assets, including:	33,298	26,300
- Deferred tax assets to be recovered after more than 12 month	*15,497*	*22,091*
- Deferred tax assets to be recovered within 12 month	*17,801*	*4,209*
Deferred tax liabilities, including:	(76,973)	(35,481)
- Deferred tax liabilities to be recovered after more than 12 month	*(76,789)*	*(23,236)*
- Deferred tax liabilities to be recovered within 12 month	*(184)*	*(12,245)*

(in thousands of EUR)

11. Other non-current assets

		31 December 2010	*31 December 2009*
Financial non-current assets			
Non-current loans issued (including outstanding interest)		1,442	28,371
	Less impairment provision	*(246)*	*(61)*
Non-current loans issued (including outstanding interest) – net		**1,196**	**28,310**
Non-current trade receivables		3,066	5,939
	Less impairment provision	*(977)*	*(3,121)*
Non-current trade receivables – net		**2,089**	**2,818**
Other non-current receivables		12,453	7,281
	Less impairment provision	*(6,122)*	*(4,328)*
Other non-current receivables – net		**6,331**	**2,953**
Available-for-sale investments		2,508	1,845
Long-term derivative financial instruments - assets		62,999	–
		75,123	**35,926**
Non-financial non-current assets			
Non-current advances to suppliers and prepayments		–	–
	Less impairment provision	–	–
Non-current advances to suppliers and prepayments – net		**–**	**–**
VAT recoverable			–
Other non-current assets		5,881	235,083
		5,881	**235,083**
		81,004	**271,009**

Non-current loans issued by the Parent company to JSC OGK-1 were fully repaid during the second half of 2010 (as at 31 December 2009 comprised EUR 28,303 thousand).

As at 31 December 2010 available-for-sale investments included EUR 2,172 thousand (31 December 2009: EUR 1,782 thousand) in respect of investments in the shares of JSC Sangtudinskaya GES-1 (Tajikistan). The increase in investments into JSC Sangtudinskaya GES-1 in the amount of EUR 390 thousand is represented by the reverse of impairment EUR 254 thousand and the translation difference EUR 136 thousand recognised in other comprehensive income of the consolidated statement of comprehensive income.

As at 31 December 2010 other non-current assets included EUR 3,605 thousand of prepayments on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees (31 December 2009: EUR 1,370 thousand). The prepayments are intended to be used for settlement of defined benefit pension obligations.

As at 31 December 2009 other non-current assets included EUR 231,505 thousand relating to construction of the second power generating block at Kaliningradskaya TEC-2 (see Note 20). As at 31 December 2010 the amount was reclassified to other current assets (see Note 15) as in accordance with the contract the title of ownership on the second power generating block ought to be transferred to the JSC "Mejregionenergostroy" in March 2011.

Long-term derivative financial instruments in the amount of EUR 62,999 thousand represented the fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 16).

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

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 1 January 2010	**(3,121)**	**(61)**	**(4,328)**	**(7,510)**
Provision for receivables impairment	–	(180)	(2,180)	(2,360)
Release of provision	1,107	–	–	1,107
Receivables written off during the year as uncollectible	196	–	–	196
Accrual of discount effect	–	–	(47)	(47)
Unwind of discount	242	–	759	1,001
Reclass of short-term portion	743	–	–	743
Translation difference	(144)	(5)	(326)	(475)
At 31 December 2010	**(977)**	**(246)**	**(6,122)**	**(7,345)**

(in thousands of EUR)

11. Other non-current assets (continued)

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 1 January 2009	**(1,834)**	**(56)**	**(5,080)**	**(6,970)**
Provision for receivables impairment	(536)	(10)	–	(546)
Reclassification of current portion	(1,008)	–	–	(1,008)
Unwind of discount	6	2	516	524
Translation difference	251	3	236	490
At 31 December 2009	**(3,121)**	**(61)**	**(4,328)**	**(7,510)**

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

12. Inventories

	31 December 2010	*31 December 2009*
Fuel production stocks	23,078	21,746
Spare parts	22,939	16,184
Materials and consumables	13,909	13,334
Other	8,125	5,980
	68,051	**57,244**

The note provides information about the inventory balances net of provision for impairment equaled as at 31 December 2010 EUR 1,167 thousand (as at 31 December 2009: EUR 876 thousand).

Also the Group has a technical reserve in the amount EUR 9,276 thousand (as at 31 December 2009: EUR 7,236 thousand), mostly represented by fuel and spare parts.

13. Accounts receivable and prepayments

		31 December 2010	*31 December 2009*
Financial assets:		**191,627**	**150,527**
Trade receivables		230,800	196,010
	Less impairment provision	*(69,591)*	*(65,218)*
Trade receivables – net		**161,209**	**130,792**
Other receivables		25,436	24,325
	Less impairment provision	*(6,084)*	*(6,098)*
Other receivables – net		**19,352**	**18,227**
Short-term loans issued (including outstanding interest)		4,772	1,514
	Less impairment provision	*(49)*	*(6)*
Short-term loans issued (including outstanding interest)		4,723	1,508
Dividends receivable		6,343	–
Non-financial assets:		**131,015**	**122,844**
Advances to suppliers and prepayments		27,780	23,655
	Less impairment provision	*(3,601)*	*(995)*
Advances to suppliers and prepayments – net		**24,179**	**22,660**
Short-term VAT recoverable		41,727	36,787
Taxes prepaid		65,109	63,397
		322,642	**273,371**
Impairment provision, total		**(79,325)**	**(72,317)**

(in thousands of EUR)

13. Accounts receivable and prepayments (continued)

As at 31 December 2010 included in the taxes prepaid is VAT in the total amount of EUR 64,258 thousand (31 December 2009: EUR 62,822 thousand).

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

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 1 January 2010	(65,218)	(995)	(6)	(6,098)	**(72,317)**
Provision for receivables impairment	(7,912)	(2,403)	(43)	(2,968)	**(13,326)**
Release of provision	86	64	–	73	**223**
Reclassification	–	(319)	–	319	**–**
Reclassification of current portion	(743)	–	–	–	**(743)**
Unused amount reversed	7,300	110	–	2,827	**10,237**
Unwinding of discount	2	–	–	–	**2**
Foreign exchange gain	55	15	–	74	**144**
Translation difference	(3,161)	(73)	–	(311)	**(3,545)**
At 31 December 2010	**(69,591)**	**(3,601)**	**(49)**	**(6,084)**	**(79,325)**

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

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

At 31 December 2010	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	115,627	4,728	17,976	6,343	**144,674**
Past due but not impaired	32,604	–	310	–	**32,914**
Past due and impaired	82,569	44	7,150	–	**89,763**
Total	**230,800**	**4,772**	**25,436**	**6,343**	**267,351**

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

(in thousands of EUR)

13. Accounts receivable and prepayments (continued)

As at 31 December 2010 accounts receivable of EUR 32,914 thousand (31 December 2009: EUR 18,159 thousand) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default. The ageing analysis of these receivables is as follows:

Past due but not impaired	***31 December 2010***	***31 December 2009***
Up to 3 month	29,460	16,621
3 to 6 month	2,802	714
6 to 12 month	651	824
Total	**32,913**	**18,159**

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

Past due and impaired	***31 December 2010***	***31 December 2009***
Up to 3 month	11,890	16,004
3 to 6 month	4,300	7,035
6 to 12 month	11,114	9,521
Over 12 months	62,428	68,393
Total	**89,732**	**100,953**

The Group does not hold any collateral as security.

14. Cash and cash equivalents

	31 December 2010	***31 December 2009***
Cash at bank and in hand	136,456	84,225
Foreign currency accounts	61,898	66,247
Bank deposits with maturity of three months or less	12,744	39,724
	211,098	**190,196**

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

Financial institution	***Credit rating***	***Rating agency***	***31 December 2010***	***31 December 2009***
JSC Sberbank	BBB/Stable/F3	Fitch	45,476	58,368
JSC Sobinbank	E+/Stable/B3	Moody's	37,317	–
CJSC Peresvet Bank	Unrated	-	23,401	30,899
Nordea Bank	BBB+/Positive/F2	Fitch	21,813	2,252
SWEDBANK AB	A/Stable/F1	Fitch	16,864	–
JSC Gazprombank	BB/Positive/B	Standard&Poor’s	13,432	20,702
JSC Bank of Georgia	B+/Stable/B	Fitch	7,687	2,113
JSC Alfa-Bank	BB-/Stable/B	Standard&Poor’s	5,751	10,866
JSC National mortgage bank	Unrated	-	5,388	–
SEB AB	A+/Stable/A-1	Standard&Poor’s	5,274	5,730
JSC Standard Bank	D-/Stable/Ba3	Moody's	3,639	2,600
JSC NOMOS-BANK	BB-/Stable/B	Fitch	3,064	7,175
JSC TBC Bank	B+/Stable/B	Fitch	2,354	–
ING Bank NV	C+/Stable/Aa3	Moody's	5,937	–
Danske Bank A/S	BBB+/Positive/F2	Fitch	1,596	–
JSC Kazinvestbank	E+/Stable/B2	Moody's	1,464	–
JSC Russ-Bank	E+/Stable/B2	Moody's	1,094	7,434
Commerzbank EURASIJA	A+/Stable/A-1	Standard&Poor’s	461	4,880
JSC Petrocommerzbank	B+/Stable/B	Standard&Poor’s	–	11,524
Evrofinance Mosnarbank	B+/Positive/B	Fitch	6	7,602
Other			9,080	18,051
			211,098	**190,196**

(in thousands of EUR)

14. Cash and cash equivalents (continued)

Bank deposits with original maturity of three months or less at 31 December 2010

Bank	*Interest rate*	*Amount of deposits*
JSC National Mortgage Bank	9.50%	5,384
JSC Bank of Georgia	2.00%	4,881
JSC NOMOS-BANK	5.25%	2,479
		12,744

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

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

15. Other current assets

	31 December 2010	*31 December 2009*
Restricted cash	21,359	6,180
Deposits with maturity of 3-12 months	4,853	691
Short-term derivative financial instruments	4,539	–
Other	390,947	2,593
	421,698	**9,464**

As at 31 December 2010 restricted cash balances include cash deposited in OKO Bank (held as collateral in favour of Fingrid) and Nordea (held as collateral in favour of Nord Pool and other parties) in the aggregate amount of EUR 17,172 thousand (31 December 2009: EUR 3,426 thousand).

As at 31 December 2010 restricted cash balances include cash deposited in VTB Bank Armenia (collateral security in favour of EBRD on the loan agreement) the amount of EUR 4,158 thousand (31 December 2009: EUR 496 thousand).

As at 31 December 2010 other current assets included EUR 387,415 thousand (relating to construction of the second power generating block at Kaliningradskaya TEC-2 (see Note 20). As at 31 December 2009 the corresponding amount of EUR 231,505 thousand was included in other non-current asset (see Note 11).

Short-term derivative financial instruments recognized as at 31 December 2010 in the amount of EUR 4,539 thousand represent the fair value of forward foreign exchange contract with expiry date 28 December 2011 of the Parent company for the purposes of hedging of future export revenue (31 December 2009: nil) (see Note 16).

16. Equity

Share capital

	31 December 2010	*31 December 2009*
Number of ordinary shares issued and fully paid (in units)	2,893,027,370,229	2,274,113,845,013
Par value (in Russian roubles ("RR")	0.02809767	0.02809767
Share capital (in thousand Russian roubles)	81,287,328	63,897,300
RUR to EUR historical exchange rate	37,1716	36,8857
Share capital (in thousand Euro)	2,186,812	1,732,306

(in thousands of EUR)

16. Equity (continued)

Movements in outstanding shares (in thousand of units)

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

	Issued shares	*Treasury shares*	*Total*
1 January 2010	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**
Additional issue of ordinary shares	618,913,525	–	**618,913,525**
Sale of treasury shares	–	11,984,361	**11,984,361**
Redemption of treasury shares under the share option plan	–	44,316,120	**44,316,120**
31 December 2010	**2,893,027,370**	**(41,763,974)**	**2,851,263,396**

The shareholders meeting held on 21 December 2009 approved the additional issue of 1.6 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each. On 27 April 2010 the Board of Directors of the Parent company approved the issue cost of the additional ordinary shares in the amount of RUR 0.0402 per share. The shareholders of the Parent bought out under the pre-emptive right 89,610 million shares for the total consideration of RUR 3,602 million or EUR 94,150 thousand. On 18 June 2010 State Corporation Vnesheconombank purchased 529,303 million of shares under the closed subscription for total consideration of RUR 21,278 million or EUR 556,122 thousand. The cash received from SC Vnesheconombank was directed to fund the investing project on construction of Urengoyskaya GRES through participation of JSC INTER RAO UES in the additional issue of shares of JSC OGK-1 in the fourth quarter 2010 (see Note 5).

The total number of the Company's ordinary shares authorised for issue as at 31 December 2010 was 15,400,000,000 thousand (31 December 2009: 4,631,258,360 thousand).

Put and call option

In June 2010 the Group entered into a put and call option agreement with SC Vnesheconombank, according to which:

- SC Vnesheconombank grants to the Group an irrevocable right (Call option) to purchase, at any point of time within six-year period, at the Call Option Price, all of the shares purchased by SC Vnesheconombank under a closed subscription (see above) and held by SC Vnesheconombank by the respective date; Call Option Price is the largest from the following variables at the date of exercise: a) Put option price, b) put option price plus 20% multiplied by the weighted average value of the Company's share on the MICEX over the preceding six-month period prior date of delivery minus put option price, c) put option price plus 20% multiplied by the net present value of gross revenue received by the Company from resale of option shares minus put option price.
- The Group grants to SC Vnesheconombank an irrevocable right (Put option) to sell, at the Put Option Price, some or all of the shares purchased by SC Vnesheconombank under the closed subscription; the right can be exercised by SC Vnesheconombank within three-year period following the first three years from the date it purchased the shares: the right can be exercised earlier if the Group does not purchase additional issue of shares of JSC OGK-1 for the total consideration of RUR 21,278 million; Put Option Price is determined based on the purchase price of RUR 0.0402 adjusted for the Russian Federation Central Bank interest rate + 1% for the period.

The difference between the market price of the shares under put and call option agreement at the date of its conclusion and the cash obtained by the Group from share issue in the amount of EUR 103,754 thousand (as at 31 December 2009 – nil) was recognised as share premium in the consolidated statement of changes in equity.

For the year ended 31 December 2010 the unrealised loss arose from the recognition of the put and call option of EUR 38,386 thousand was recognised in consolidated statement of comprehensive income (for the year ended 31 December 2009 – nil).

As at 31 December 2010 the Group did not intend to exercise the Call option and assesses the possibility of realisation of the Put Option by SC Vnesheconombank as low.

Treasury shares

As at 31 December 2010 the Group held 41,763,974 thousands treasury shares amounted to RUR 1,173,470 thousand or EUR 31,569 thousand (as at 31 December 2009: 98,064,455 thousands treasury shares amounted to RUR 2,755,383 thousand or EUR 74,701 thousand). Treasury shares have been obtained as a result of the reorganisation of the Parent company in earlier periods. All of the treasury shares were held by one of the Company's 100% subsidiaries.

(in thousands of EUR)

16. Equity (continued)

Treasury shares (continued)

During the year 2010 44,316,120 thousand of treasury shares amounted to RUR 1,245,180 thousand or EUR 34,073 thousand have been redeemed by the management of the Group under share option programme (see Note 32).

The Group also has sold 11,984,361 thousand of treasury shares amounted to RUR 336,732 thousand or EUR 9,059 thousand to third parties during the year 2010. Cash consideration for the treasury shares sold equalled to RUR 551,080 thousand or EUR 13,676 thousand.

Share premium

The difference between the issue cost and the nominal value of shares issue in the amount RUR 7,490,296 thousand or EUR 195,766 thousand and the difference between the issue cost and the market value of shares issue in the amount RUR 3,969,776 thousand or EUR 103,754 thousand has been recognised as share premium in the consolidated statement of financial position and the consolidated statement of changes in equity.

Dividends

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

On 30 April 2010 UAB INTER RAO Lietuva, the Group entity, declared dividends for the year 2009 of LTL 28.98 thousand or EUR 8.39 thousand per share for the total of LTL 28,982 thousand or EUR 8,394 thousand, out of which LTL 14,201 thousand or EUR 4,113 thousand were paid to minorities.

On 31 March 2010 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2009 of KZT 172,139 thousand or EUR 880 thousand, out of which KZT 41,371 thousand or EUR 212 thousand were paid to minorities.

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

Cash flow hedge reserve

In April 2009 the Parent company entered into an interest rate swap agreement in respect of future payments of USD 109 million within the period 13 May 2009 till 12 November 2013 for the purposes of hedging future interest payments under the long-term loan agreement with LIBOR floating interest rate from State Corporation Vnesheconombank (see Note 18 (iii)). The payment period according to the agreement is six months; the first repayment date is 12 November 2009. As at 31 December 2010 the loss on the above hedge transaction was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to EUR 2,348 thousand, net of tax of EUR 587 (as at 31 December 2009: a gain in the amount of EUR 106 thousand, net of tax of EUR 27 thousand).

During the year 2010 the Parent company entered into a number of foreign currency forward contracts in order to hedge the cash flows related to foreign currency sales denominated in Euro. As at 31 December 2010 the gain on the above hedge transactions was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to EUR 2,809 thousand, net of tax of EUR 702 (as at 31 December 2009: nil).

During the year 2010 RAO Nordic Oy entered into electricity forward contracts in order to hedge cash flows associated with the electricity sales. As at 31 December 2010 the net loss on the above hedge transactions was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to EUR 31,059 thousand, net of tax of EUR 10,913 thousand.

Revaluation reserve

For the year ended 31 December 2010 reserve on revaluation of property, plant and equipment in the amount of EUR 2,020 thousand was reversed into accumulated earnings due to disposal of items of property, plant and equipment (for the year ended 31 December 2009 – EUR 1,766 thousand).

(in thousands of EUR)

17. Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below.

As at 31 December 2010 the antidilutive effects of the recognition of Put and Call option signed with SC Vnesheconombank (see Note 16) and the share option plan (see Note 31) are not included in calculation of diluted earnings per share.

The dilutive effect of outstanding options (Note 31) as at 31 December 2009 is reflected as share dilution in the computation of diluted earnings per share.

	Year ended 31 December 2010	*Year ended 31 December 2009*
Weighted average number of shares for basic earnings per share	2,508,397,473,863	2,176,049,389,090
Effect of dilution:		
Share options	1,431,859,089	8,545,736,951
Weighted average number of shares adjusted for effect of dilution	**2,509,829,332,952**	**2,184,595,126,041**
Profit / (loss) attributable to the shareholders of the Company	275,594	(280,788)
Basic earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company (EUR)	0.0001099	(0.0001290)
Diluted earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company (EUR)	0.0001098	(0.0001285)

18. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. Certain loan agreements include financial and non-financial coventants clauses.

	Currency	*Effective interest rate*	*31 December 2010*	*31 December 2009*
SC Vnesheconombank (iii) [1]	USD	Libor+6%	123,168	113,621
JSC Sberbank (ix)	RUR	8.00%	99,174	230,477
SC Vnesheconombank (vii)	RUR	CBR+2.75%	60,727	34,359
JSC Alfa-Bank (xiii)	RUR	8.25%	54,546	–
JSC Transcreditbank (xi)	RUR	8.00%	54,546	–
JSC Gazprombank (xiv)	RUR	8.50%	42,149	–
EBRD (viii)	EUR	Euribor+5%	42,000	15,223
JSC Gazprombank (v)	RUR	9.00%	41,669	38,735
LLC Business - Aliens (x)	RUR	13.11%	23,279	31,128
SC Vnesheconombank (xv)	EUR	Euribor+7%	22,218	–
JSC Gazprombank (vi)	RUR	9.00%	21,075	19,591
Government of Armenia (iv)	JPY	8.00%	19,466	7,468
JSC ROSSIYA (xii)	RUR	7.50%	15,000	–
JSC VTB Bank Georgia	USD	14.00%	9,681	9,755
VTB Bank Europe plc	USD	Libor+2%	6,297	29,044
Government of Armenia (subloaned-KfW) (ii)	EUR	18.00%	4,061	4,535
JSC Bank of Georgia	USD	14.00%	3,550	3,484
CJSC HSBC Bank Armenia	EUR	10.00%	2,848	3,313
Ministry of Finance, Georgia (subloaned –IDA/WB) (i,a)	USD	20.00%	1,584	2,681
Ministry of Finance, Georgia (subloaned –EBRD) (i,b)	USD	20.00%	1,363	2,307
CJSC Ardshininvestbank	USD	Libor+9.25%	1,134	–
Ministry of Finance, Georgia (subloaned-KfW) (i,c)	EUR	20.00%	626	1,060
JSC Sberbank	RUR	10.75%	–	46,095
JSC Russ-Bank	RUR	13.75%	–	34,572
SC Vnesheconombank	RUR	CBR+2.75%	–	28,303
Other			18,313	36,347
Total long-term borrowings			**668,474**	**692,098**
Less: current portion of long-term loans and borrowings and long-term financial lease			(40,343)	(106,305)
			628,131	**585,793**

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

(in thousands of EUR)

18. Loans and borrowings (continued)

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where approprirate, to the net carrying amount of the financial asset or liability.

As at 31 December 2010 the estimated fair value of total non-current debts (including the current portion) was EUR 655.59 million (31 December 2009: EUR 684.05 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 31 December 2010 one of the Group entities, Mtkvari Energy LLC, had three loans of total carrying value of EUR 3,573 thousand obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

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

The loans currently are payable to:

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

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

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

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

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

The Group considered the ability of Mtkvari Energy LLC to settle it’s existing and future liabilities in accordance with the above repayment priority and concluded that the repayment of these three loans will start not earlier than in 2019 with the last payment to be made in 2047. The amortised cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20%, approximating the equivalent market yield on loan borrowings by Mtkvari Energy LLC at the date of inception of these loans.

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting on the Mtkvari Energy LLC loans discussed above, in the amount of EUR 1,309 thousand and EUR 4,655 thousand in the period ended 31 December 2010 and 31 December 2009, respectively.

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

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

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting for the Armenian loans considered above in the amount of EUR 703 thousand and EUR 781 thousand in the period for the period ended 31 December 2010 and 31 December 2009, respectively.

(iii) As at 31 December 2010 the Parent Company had a loan in the amount of USD 163 million with an interest rate of LIBOR+6%, which was obtained for the purpose of financing the purchase of Freecom Trading Limited. The loan is to be repaid on 12 November 2013.

(in thousands of EUR)

18. Loans and borrowings (continued)

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

Since the interest rate stipulated by this loan was significantly lower than the market rates, initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (8%). Further to initial recognition, the loan is to be carried at amortised cost, using the discount rate applied during its initial recognition.

(v) On 29 October 2009 the Parent Company obtained a credit line in the total amount of RUR 1,681 million with a fixed interest rate of 9% for the following finance purposes: issuance of loans (deposits) to third parties, investments in share capitals and purchases of shares on secondary market. The loan is to be repaid on 29 August 2014.

(vi) On 20 October 2009 the Parent Company obtained credit lines in the amount of RUR 850 million with a fixed interest rate of 9%. The loan is to be repaid on 20 October 2014.

(vii) In March 2009 the Parent Company obtained a loan in the amount of RUR 1,491 million and the total amount of credit limit of RUR 3.7 billion with initial fixed interest rate equalled to 14%. In the second quarter 2010 in accordance with addendum the interest rate was changed to floating equalled CBR+2.75%. The purpose of long-term loan is construction of second power generating block on Sochinskaya TPS, one of the Parent Company branches. The loan is to be repaid on 30 September 2018.

(viii) As at 30 April 2009 one of the Group entities CJSC Elektricheskiye seti Armenii obtained a credit line with the total amount of credit limit EUR 42 million, with a interest rate equalled to EURIBOR+5% for the purposes of refinancing loan received from other bank and financing of current operating activities. The Parent company act as a guarantor under the agreement signed with the creditor.

(ix) As at 31 August 2009 the Parent company obtained a credit line in the amount of RUR 10 billion for the purposes of refinancing loans received from other banks. The remaining amount of liability as at 31 December 2010 comprised RUR 4 billion with the interest rate of 8%. The loan is to be repaid on 14 June 2013.

(x) The liability to CJSC Busines-Aliance in the amount of EUR 23,279 thousand represents finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS, one of the Parent Company branches. The power generating block was set into operation at the end of 2009 financial year. Under the terms of the lease

(xi) agreement the lessor imposes all the costs arising from the change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR) on the Parent company.

(xii) On 26 May 2010 the Parent company obtained a credit in the amount of RUR 2.2 billion with a fixed interest rate of 8% for the purposes of financing the current operating activities. The loan is to be repaid on 26 May 2013.

(xiii) On 31 August 2010 on of the Group entities RAO Nordic Oy obtained a loan amounted to EUR 15 million with a fixed interest rate 7.5% for the purpose of financing the current operating activities.

(xiv) As at 31 December 2010 the Parent company had a loan equalled RUR 2.2 billion obtained on 30 June 2010 with a fixed interest rate equalled to 8.25% for the purposes of financing the current operating activities. The loan is to be repaid on 30 June 2013.

(xv) On 7 June 2010 the Parent company obtained a credit line equalled to RUR 1.7 billion as at 31 December 2010 and the total amount of credit limit of RUR 2.2 billion with a fixed interest rate equalled to 8.5% for the purposes of financing the current operating activities. The loan is to be repaid on 7 June 2013.

(xvi) On 17 June 2009 one of the Group entities CJSC Elektricheskiye seti Armenii obtained a credit line with a floating interest rate equalled to EURIBOR+7% for the purposes of refinancing loan received from other banks. As at 15 October 2009 the Parent company signed a guaranty agreement with the creditor according to which it carries the joint liability under the above loan agreement.

On 28 December 2009 one of the Group entities RAO Nordic Oy entered into financial guarantee agreement for the purposes of ensuring its trade activity, as at 31 December amounted to EUR 45 million with an interest rate equalled to 16%. The Parent company acted as guarantor under this agreement.

(in thousands of EUR)

18. Loans and borrowings (continued)

In June 2010 the Company's jointly controlled entity - JSC Stantsiya Ekibastuzskaya GRES-2 obtained two loans at the amounts of USD 385 million and RUR 12,000 million from Eurasian Development Bank and SC Vnesheconombank matured in 2025. The Company's shareholders has approved the decision to issue guarantee to the banks at the amount of 50% of the two loans and the Company's Board of directors has approved the decision to pledge the shares of JSC Stantsiya Ekibastuzskaya GRES-2 owned by the Company as a collateral. The Company's liability under the guarantee and collateral is limited by 50% of the two loans obtained by the entity; the other 50% are to be guaranteed and collateralised in the same form by the other venturer - Samruk-Kazyna.

Gross finance lease liabilities – minimum lease payments

	31 December 2010	*31 December 2009*
Less than one year	12,674	12,928
Between one and five years	39,514	25,627
After five years	298	4,969
	52,486	**43,524**
Future finance charges on finance leases	(11,215)	(12,212)
Present value of finance lease liabilities	**41,271**	**31,312**

The present value of finance lease liabilities is as follows:

	31 December 2010	*31 December 2009*
Less than one year	8,666	9,102
Between one and five years	32,336	17,603
After five years	269	4,607
	41,271	**31,312**

Maturity table:

	31 December 2010	*31 December 2009*
Due for repayment		
Between one and two years	48,363	69,819
Between two and five years	514,146	478,756
After five years	65,622	37,218
	628,131	**585,793**

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

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

	Effective interest rate	*31 December 2010*	*31 December 2009*
Current loans and borrowings	12.00%	6,529	15,211
Current portion of non-current loans and borrowings	3.32%-18.00%	31,677	97,203
Current portion of finance lease liability	14.79%	8,666	9,102
Total		**46,872**	**121,516**

As at 31 December 2010 current loans and borrowings include:

- interest payable amounted to as at 31 December 2010 EUR 3,960 thousand (as at 31 December 2009: EUR 3,982thousand), mostly related to long-term loans and borrowings (iii), (iv), (v), (vii), (vii), (viii), (ix), (xi), (xiv), (xv);
- short-term loan in amount EUR 2,494 thousand with fixed interest rate 12% from Ardshiinvestbank CJSC, was obtained by the Group entity CJSC Elektricheskiye seti Armenii as at 27 December 2010.

(in thousands of EUR)

18. Loans and borrowings (continued)

As at 31 December 2010 several bank loans are collateralised by properties with a carrying amount of EUR 94 thousand (31 December 2009: EUR 74 thousand) (see Note 6 (b). The amount of the loans as at 31 December 2010 is EUR 3,616 thousand (31 December 2009: EUR 3,313 thousand).

The Group has the following undrawn borrowing facilities:

	31 December 2010	*31 December 2009*
Floating rate:		
Expiring within one year	–	176,130
Expiring beyond one year	12,397	–
	12,397	**176,130**
Fixed rate:		
Expiring within one year	13,955	64,431
Expiring beyond one year	45,000	30,001
	58,955	**95,432**
Total	**71,352**	**270,562**

19. Accounts payable and accrued liabilities

	31 December 2010	*31 December 2009*
Financial liabilities		
Trade payables	127,336	108,438
Short-term derivative financial instruments	43,396	1,718
Dividends payable	818	–
Other payables and accrued expenses	83,597	21,827
Total	**255,147**	**131,983**
Non-financial liabilities		
Direct financing	357,762	–
Advances received	16,830	7,129
Staff payables	21,470	7,920
Other payables	762	3,898
Total	**396,824**	**18,947**
	651,971	**150,930**

Short-term derivative financial instruments recognized as at 31 December 2010 include fair value of open electricity derivatives of RAO Nordic Oy for the purposes of hedging of future sales equaled to EUR 42,297 thousand (31 December 2009: EUR 1,718 thousand), fair value of forward foreign exchange contract to EUR 1,028 thousand (31 December 2009: nil) and forward foreign swap of the Parent company equaled to EUR 71 thousand (31 December 2009: nil).

As at 31 December direct financing in the amount of EUR 357,762 thousand represents financing received from JSC “Mejregionenergostroy” for the purpose of construction of the second power generating block at Kaliningradskaya TEC-2 on behalf of that company under an investment agreement. As at 31 December 2009 the corresponding amount was included in the other non-current liabilities (see Note 20). In accordance with the investment agreement, JSC “Mejregionenergostroy” will finance the capital expenditure through payments to a special bank account up to a limit of EUR 552,943 thousand. The Parent Company will receive fees in the amount limited to EUR 3,741 thousand (including VAT), as defined in the investment contract, in connection with management of the construction project. After construction is completed (expected in the first quarter 2011), the title of ownership will be transferred to JSC “Mejregionenergostroy”.

Included in Other payables and accrued expenses the amount of EUR 13,619 thousand (31 December 2009: nil) represents liabilities to JSC “Technopromexport” under the agreement of construction of the second power generating block at Kaliningradskaya TEC-2.

As at 31 December 2010 the amount of EUR 31,528 thousand included in Other payables and accrued expenses comprised liability to FORTUM POWER AND HEAT OY on the purchase agreement of shares of the associate JSC PSC, the amount of liability as at date of acquisition equalled to EUR 30,948 thousand (see Note 5). The increase in accounts payable is explained by foreign exchange gain in the amount EUR 580 thousand.

(in thousands of EUR)

19. Accounts payable and accrued liabilities (continued)

As at 31 December 2010 the amount of EUR 1,267 thousand included in Other payables and accrued expenses represented liability to LLC Industrial Investments according the share purchase agreement of the subsidiary JSC Industrial Energetics, the amount of liability as at date of acquisition equalled to EUR 1,204 thousand (see Note 5). The account balance relates solely to foreign exchange.

As at 31 December 2010 the Parent company issued security for the obligation to UniCredit bank CJSC on payment of underlying asset on the foreign currency exchange and interest rate SWAP contracts.

20. Other non-current liabilities

	31 December 2010	*31 December 2009*
Financial liabilities		
Long-term derivative financial instruments	3,069	76
Total financial liabilities	**3,069**	**76**
Non-financial liabilities		
Pensions liabilities	4,697	3,078
Direct financing	–	216,701
Government grants	11,973	6,279
Other long-term liabilities	–	1,416
Total non-financial liabilities	**16,670**	**227,474**
Total	**19,739**	**227,550**

Government grants relate to the low interest loan received from Government of Armenia (see Note 18, (iv)).

The Group provides certain post-employment benefits to their employees in accordance with labour agreements. Post employment benefits consist of pension benefits via non state fund, lump sum payments at retirement and towards employees' jubilees, pension benefits to non-working pensioners-veterans and funeral compensation.

These benefits generally depend on the years of service, terminal salary and amount of benefits provided under labour agreements, The Group pays the benefits when they fall due for payment.

Long-term derivative financial instruments recognized as at 31 December 2010 in the amount of EUR 3,069 thousand (31 December 2009: EUR 76 thousand) represent the fair value of interest rate swap of the Parent company for the purposes of hedging risks related to LIBOR floating interest rate of the loan received from Vnesheconombank SC nominated in USD (see Note 18).

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

Amounts recognised in the Consolidated Statement of financial position:

	31 December 2010	*31 December 2009*
Present value of defined benefit obligations	15,065	4,918
Less: Fair value of plan assets	–	–
Deficit in plan	**15,065**	**4,918**
Net actuarial loss not recognised in the balance sheet	(5,941)	(1,209)
Unrecognised past service costs	(4,427)	(631)
Pension liabilities in the balance sheet	**4,697**	**3,078**

Amounts recognised in the Consolidated Statement of comprehensive income:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Current service cost	603	322
Interest cost	836	334
Recognised actuarial loss	239	14
Recognised past service cost	336	183
Total	**2,014**	**853**
Curtailment and settlement gain	(564)	(159)
Total	**1,450**	**694**

(in thousands of EUR)

20. Other non-current liabilities (continued)

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

	31 December 2010	*31 December 2009*
Present value of defined benefit obligations as at the beginning of the period	4,918	4,047
Current service cost	603	322
Interest cost	836	334
Actuarial loss	4,687	893
Past service cost	4,314	347
Benefits paid	(63)	(561)
Other (Curtailment gain)	(595)	(300)
Translation difference	365	(164)
Present value of defined benefit obligations as at the end of the period	**15,065**	**4,918**

Plan assets:

	31 December 2010	*31 December 2009*
Employer contributions	63	561
Benefits paid	(63)	(561)
Fair value of plan assets as at the end of the period	–	–

Changes in the pension liabilities are as follows:

	31 December 2010	*31 December 2009*
Pension liabilities at start of the year	3,078	3,081
Net expense recognised in the statement of operations	1,450	694
Benefits paid	(63)	(561)
Translation difference	232	(136)
Pension liabilities at end of period	**4,697**	**3,078**

Principal actuarial assumptions are as follows:

	31 December 2010	*31 December 2009*
Discount rate	8.00%	9.00%
Salary increase	7.50%	8.00%
Inflation	6.00%	6.50%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998

Staff turnover was assessed using an experience-based model.

The Group's best estimate of contributions to be paid in next year is EUR 730 thousand (31 December 2009: EUR 364 thousand).

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising from experience adjustments is as follows:

	31 December 2010	*31 December 2009*
Defined benefit obligation	15,065	4,918
Plan assets	–	–
Deficit in plan	15,065	4,918
Experience adjustments on plan liabilities, gain/(loss)	(1,845)	(1,017)
Experience adjustments on plan assets	–	–

(in thousands of EUR)

21. Taxes payable

	31 December 2010	*31 December 2009*
Value added tax (including deferred)	14,722	7,548
Property tax	5,252	2,509
Fines and interest	2,145	2,461
Other taxes	3,561	3,132
	25,680	**15,650**

Included in value added tax payable is EUR 3,755 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2009: EUR 3,669 thousand).

22. Revenue

	The year ended 31 December 2010	*The year ended 31 December 2009*
Electricity and capacity	1,993,028	1,530,652
Government Grants / Subsidies	2,369	1,238
Other revenue	13,529	11,523
	2,008,926	**1,543,413**

Electricity and capacity revenue includes EUR 510.2 million (EUR 247.7 million for the year ended 31 December 2009) revenue from sales transactions through JSC CFR - the utility market intermediary in the Russian Federation and EUR 297 million (EUR 158 million for the year ended 31 December 2009) revenue from sales to NordPool - the Nordic power exchange.

23. Other operating income

	The year ended 31 December 2010	*The year ended 31 December 2009*
Electricity derivatives	18,575	4,483
Management fee (OGK-1 JSC)	17,867	2,750
Rental income	5,425	4,923
Insurance compensation	3,832	684
Discounting and write-off of accounts payable	2,590	–
Penalties and fines	2,223	673
Subcontractor services (JSC "Mejregionenergostroy")	1,269	1,449
Fee on sale of equipment	971	–
Gain on disposal of subsidiaries (Note 5)	–	814
Other	6,815	6,027
	59,567	**21,803**

(in thousands of EUR)

24. Operating expenses

	The year ended 31 December 2010	*The year ended 31 December 2009*
Purchased electricity and capacity	1,005,973	777,627
Fuel expense	254,123	230,449
Employee benefit expenses and payroll taxes	159,410	131,134
Transmission fees	144,607	97,779
Depreciation of property, plant and equipment	90,810	77,268
Expenses from derivatives trading operations on the electricity market	38,758	6,324
Repairs and maintenance	37,522	35,646
Taxes other than on income	23,498	24,631
Consulting, legal and auditing services	10,463	9,874
Operating lease expenses	10,214	7,270
Insurance expenses	8,701	6,904
Agency fees	8,396	5,800
Fees and penalties, other than tax	6,376	4,274
Business trip and field travel expenses	5,912	6,760
Loss on write-off of property, plant and equipment	4,414	1,741
Provision for impairment of account receivables - charge (release)	4,254	6,825
Communication services	3,955	4,120
Other provisions	3,826	3,965
Bank services	3,763	4,270
Impairment of Investment property	3,709	12,437
Security expenses	3,392	2,963
Other materials for production purposes	3,154	2,276
Material expenses (office maintenance)	2,708	2,590
Social expenditure	2,421	807
Amortisation of Intangible assets	2,312	1,654
Charity donations	2,189	3,156
Write off of bad debt which was not previously provided	1,795	(50)
Advertising	1,480	2,164
Representative expenses	1,407	1,242
Research and development	747	850
Depreciation of investment property	491	257
Custom taxes	474	343
Water rectification expenses	405	407
Impairment of Property Plant and Equipment	403	384,117
Management and technical fee	100	664
Brokerage charges	32	1,142
Impairment of Goodwill	–	7,862
Other expenses	31,236	22,826
	1,883,430	**1,890,368**

25. Finance income and expenses

	The year ended 31 December 2010	*The year ended 31 December 2009*
Finance income		
Interest income	24,784	21,551
Dividend income	2	–
	24,786	**21,551**

	The year ended 31 December 2010	*The year ended 31 December 2009*
Finance expenses		
Interest expense	81,044	73,106
Foreign exchange loss, net	5,917	53,894
Other finance expenses	38,386	–
	125,347	**127,000**

(in thousands of EUR)

25. Finance income and expenses (continued)

The expense in the amount EUR 38,386 thousand, included in other finance expenses, is related to the recognition of fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 16).

Included in interest expense is the amount of interest expense on a long-term interest rate swap contract (see Note 16) of EUR 275 thousand recognised in the consolidated statement of comprehensive income during the current period (for the year ended 31 December 2009: EUR 207 thousand).

26. Income tax (expense) / benefit

	The year ended 31 December 2010	***The year ended 31 December 2009***
Current tax expense	(33,440)	(19,075)
Deferred tax expense:	(44,553)	71,927
Provision for income tax	–	7,013
	(77,993)	**59,865**

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (2009: 20%). The income tax rate in Finland is 26% (2009: 26%), in Georgia is 15% (2009: 15%), in Lithuania is 15% (2009: 20%) in Armenia is 20% (2009: 20%), in Kazakhstan 20% (2009: 20%). The tax system in Transnistria, Moldova, where Moldavskaya GRES operates, is based on revenue at a rate of 3.8% (2009: 6.4%).

In accordance with tax legislations, tax losses in different Group companies in the countries where Group companies operate may not be offset against taxable profit of other Group companies. Accordingly, profit tax may accrue even where there is a net consolidated tax loss.

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

	The year ended 31 December 2010	***The year ended 31 December 2009***
Profit before profit tax	367,939	(342,121)
Theoretical profit tax (charge) / benefit at 20%	(73,588)	68,424
Effect of different tax rates	2,656	(4,130)
Effect of different tax base (Moldavskaya GRES)	(5,610)	(11,636)
Non-recognized deferred tax assets movements	1,711	(4,193)
Provision for income tax	–	7,013
Effect from acquisitions	28,020	14,329
Tax effect on recognition of call and put option	(20,778)	–
Tax effect of items which are not deductible or assessable for taxation purposes, net	(10,404)	(9,942)
	(77,993)	**59,865**

27. Financial instruments and financial risk factors

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk and price risk), credit risk and liquidity risk. Since 2008 risk management is carried out in accordance with a risk policy approved by the Management Board.

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

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

Financial risk factors (continued)

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

31 December 2010	***Note***	***Loans and receivables***	***Derivatives used for hedging***	***Available for sale***	***Total***
Assets as per consolidated statement of financial position					
Available for sale financial assets	11	–	–	2,508	2,508
Derivative financial instruments	11,15	–	67,538	–	67,538
Trade and other receivables excluding prepayments	11,13	201,243	–	–	201,243
Restricted cash	15	21,359	–	–	21,359
Deposits with maturity exceeding 3 months	15	4,853	–	–	4,853
Cash and cash equivalents	14	211,098	–	–	211,098
Total assets		**438,553**	**67,538**	**2,508**	**508,599**

31 December 2010	***Note***	***Liabilities at fair value through profit and loss***	***Other financial liabilities at amortised cost***	***Finance lease liabilities***	***Total***
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	18	–	633,732	–	633,732
Finance lease liabilities	18	–	–	41,271	41,271
Derivative financial instruments	19,20	46,465	–	–	46,465
Trade and other payables excluding taxes	19	–	211,751	–	211,751
Total liabilities		**46,465**	**845,483**	**41,271**	**933,219**

31 December 2009	***Note***	***Loans and receivables***	***Derivatives used for hedging***	***Available for sale***	***Total***
Assets as per consolidated statement of financial position					
Available for sale financial assets	11	–	–	1,845	1,845
Trade and other receivables excluding prepayments	11,13	184,608	–	–	184,608
Restricted cash	15	6,180	–	–	6,180
Current portion of long-term deposits	15	691	–	–	691
Cash and cash equivalents	14	190,196	–	–	190,196
Total assets		**381,675**	–	**1,845**	**383,520**

31 December 2009	***Note***	***Liabilities at fair value through profit and loss***	***Other financial liabilities at amortised cost***	***Finance lease liabilities***	***Total***
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	18	–	675,997	–	675,997
Finance lease liabilities	18	–	–	31,312	31,312
Derivative financial instruments	19,20	1,794	–	–	1,794
Trade and other payables excluding taxes	19	–	130,265	–	130,265
Total liabilities		**1,794**	**806,262**	**31,312**	**839,368**

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(a) Credit risk

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

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

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

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

31 December 2010	*Russia*	*Armenia*	*Georgia*	*Lithuania*	*Moldova*	*Finland*	*Other*	*Total*
Derivative financial instruments	47,330	–	–	–	–	–	–	**47,330**
Restricted cash	–	4,158	–	29	–	17,172	–	**21,359**
Trade receivables	89,947	28,183	15,063	13,228	4,836	6,846	3,106	**161,209**
Other receivables	28,816	981	203	145	144	17	112	**30,418**
Non-current loans issued	30	–	1,160	6	–	–	–	**1,196**
Non-current receivables	5,373	–	2,089	–	–	–	958	**8,420**
Deposits with maturity exceeding 3 months	4,533	320	–	–	–	–	–	**4,853**
Cash and cash equivalents	136,034	3,175	14,703	23,729	2,672	21,865	8,920	**211,098**
Total	**312,063**	**36,817**	**33,218**	**37,137**	**7,652**	**45,900**	**13,096**	**485,883**

31 December 2009	*Russia*	*Armenia*	*Georgia*	*Lithuania*	*Moldova*	*Finland*	*Other*	*Total*
Restricted cash	–	2,715	–	29	–	3,426	10	**6,180**
Trade receivables	77,166	24,485	18,459	1,469	3,009	5,904	300	**130,792**
Other receivables	8,350	2,347	2,872	864	1,684	172	3,446	**19,735**
Non-current loans issued	28,303	–	–	7	–	–	–	**28,310**
Non-current receivables	3,661	25	2,085	–	–	–	–	**5,771**
Current portion of long-term deposits	691	–	–	–	–	–	–	**691**
Cash and cash equivalents	169,921	769	5,810	5,730	3,703	2,151	2,112	**190,196**
Total	**288,092**	**30,341**	**29,226**	**8,099**	**8,396**	**11,653**	**5,868**	**381,675**

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

As at 31 December 2010 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of EUR 163,298 thousand (31 December 2009: EUR 133,610 thousand), and other receivables in the amount of EUR 37,945 thousand (31 December 2009: EUR 50,998 thousand). The total sum of receivables as at 31 December 2010 was EUR 201,243 thousand (as at 31 December 2009: EUR 184,608 thousand).

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(a) Credit risk (continued)

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

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

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

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

As at 31 December 2010	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	138,041	–	138,041	69%
B'	19,630	(2,284)	17,346	9%
B''	25,528	(6,682)	18,846	9%
B'''	14,417	(8,067)	6,350	3%
C	62,113	(59,488)	2,625	1%
Loans issued to employees	7,449	(4,368)	3,081	2%
Related parties	17,132	(2,178)	14,954	7%
Total	**284,310**	**(83,067)**	**201,243**	**100%**

As at 31 December 2009	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	73,797	(2)	73,795	40%
B'	54,922	(5,260)	49,662	27%
B''	24,869	(6,064)	18,805	10%
B'''	12,356	(6,718)	5,638	3%
C	56,650	(55,970)	680	0%
Other small debtors (A class)	422	–	422	0%
Loans issued to employees	7,921	(4,757)	3,164	2%
Related parties	32,503	(61)	32,442	18%
Total	**263,440**	**(78,832)**	**184,608**	**100%**

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

Class A – parties with stable financial performance who have rarely allowed delayed settlement or defaulted on their financial obligations towards the Group. The credit risk related to those entities and individuals is considered minimal. No provision has been applied for such receivables.

Class B – parties, whose capacity to clear their financial obligations towards the Group is to some extent affected by credit risk. This group is sequentially divided into three sub-classes:

Class B' – parties with satisfactory creditworthiness, where any delaying of payments has been only short-term and temporary in character, related agreements are put in place accordingly, credit risk related to those entities and individuals is considered low.

Class B'' – parties with poor creditworthiness, reasonably frequent delays in payments happen from time to time, there is reasonable uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered acceptable.

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(a) Credit risk (continued)

Class B''' – parties with unsatisfactory creditworthiness, frequent delay in payments happen or\and have systematic grounds (reasons), there is significant uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered moderate.

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

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

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

There are number of debtors to which credit risk classification and policy are addressed on a specific basis. These are debts of entities under trust management (JSC OGK-1, Khramesi I, Khramesi II, CJSC Armenian Nuclear Plant and JSC PSC) and the loans issued to employees by Parent company. Management considers these debts as highly likely to be recovered.

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole, incur currency risk on sales, purchases and borrowings that are denominated in a currency other than functional currency of the specific subsidiary or the Parent Company. The currencies giving rise to this risk are primarily the USD and EUR. In 2010 the Group entered into several forward contracts to manage the Group's foreign currency risks (see Note 15 and 19).

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

At 31 December 2010	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	125,968	199,382	964	**326,314**
Cash and cash equivalents	30,262	33,797	315	**64,374**
Restricted cash	4,158	–	–	**4,158**
Derivative financial instruments (assets)	4,539	–	–	**4,539**
Loans and borrowings (excluding finance lease liabilities)	(106,608)	(246,085)	(19,683)	**(372,376)**
Finance lease liabilities	(21,430)	(15,704)	–	**(37,134)**
Derivative financial instruments (liabilities)	(1,028)	(3,069)	–	**(4,097)**
Trade and other payables (excluding taxes)	(28,348)	(28,472)	(29,774)	**(86,594)**
Net foreign currency position	**7,513**	**(60,151)**	**(48,178)**	**(100,816)**

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

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

For the purposes of sensitivity analysis, management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income and equity for the year ended 31 December 2010 would have been a profit EUR 15,565 thousand and loss EUR 23,605 thousand (for the year ended 31 December 2009: loss EUR 1,837 thousand or loss EUR 14,007 thousand) in accordance with positive and negative scenario, respectively.

At 31 December 2010	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	13.27%	(3.92)%	8.83%	(11.79)%	(0.08)%	(19.89)%	(7.18)%	5.13%	(4.96)%
Lower level	(7.17)%	(7.02)%	(13.69)%	14.47%	6.26%	24.84%	3.58%	(3.85)%	10.52%

At 31 December 2009	***EUR /USD***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	(12.6)%	9.0%	(6.0)%	1.8%	(11.3)%	(5.7)%	(1.2)%	(13.6)%	2.3%
Lower level	1.9%	(12.3)%	(11.8)%	12.9%	14.6%	18.7%	6.8%	8.8%	4.9%

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

(ii) Interest rate risk

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

As at 31 December 2010 the variable rate debt, represented by loans with LIBOR, EURIBOR linked interest rates, amounted to EUR 190,166 thousand (31 December 2009: EUR 159,220 thousand).

As at 31 December 2010, the variable rate debt, represented by loans with CBR linked interest rates, amounted to EUR 60,727 thousand (31 December 2009: EUR 28,339 thousand).

The hypothetical effect on income/(loss) per annum due to the change in basis points in floating interest rates, with all other variables held constant:

	Probable deviation of LIBOR		***Probable deviation of CBR***	
Hypothetical effect on income/(loss)	10 bp increase	35 bp decrease	25 bp increase	175 bp decrease
for the year ended 31 December 2010	156	(545)	121	(850)
Hypothetical effect on income/(loss)	105 bp increase	105 bp decrease	380 bp increase	380 bp decrease
for the year ended 31 December 2009	1,337	(1,337)	862	(862)

(c) Liquidity risk

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

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(c) Liquidity risk (continued)

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

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	79,493	85,773	541,986	129,202	137,613	**974,067**
Trade and other payables	211,757	–	–	–	126	**211,883**
Finance lease payables	12,674	11,780	27,787	298	–	**52,539**
Derivative financial instruments obligations	43,396	–	3,069	–	–	**46,465**
Total at 31 December 2010	**347,320**	**97,553**	**572,842**	**129,500**	**137,739**	**1,284,954**

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	214,999	128,578	608,375	85,386	133,310	**1,170,648**
Trade and other payables	130,265	–	–	–	–	**130,265**
Finance lease payables	12,928	7,117	18,510	4,969	–	**43,524**
Derivative financial instruments obligations	1,718	–	76	–	–	**1,794**
Total at 31 December 2009	**359,910**	**135,695**	**626,961**	**90,355**	**133,310**	**1,346,231**

(d) Capital management

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

The Group monitors capital on the basis of a number of ratios based on the statutory financial statements of JSC "INTER RAO UES" and the management accounts of its subsidiaries prepared according to statutory requirements. The Group analyses equity and debt financing (see Notes 16 and 18 respectively). As at 31 December 2010 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

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

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

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

(e) Electricity derivatives

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

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(g) Fair values

Fair value has been determined either by reference to the market value at the end of the reporting period or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. For loans and borrowings the fair value is disclosed in the Note 18.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	***Note***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	11,15	4,539	–	–	**4,539**
Financial assets held for trading					
Bank deposits with maturity of three months or less	14	–	–	12,744	**12,744**
Deposits with maturity of 3-12 months	15	–	–	4,853	**4,853**
Financial assets designated at fair value through profit or loss:					
Put and Call option agreement	11	–	62,999	–	**62,999**
Total financial assets		**4,539**	**62,999**	**17,597**	**85,135**
Financial liabilities					
Derivative financial instruments					
Foreign exchange SWAP	19	71	–	–	**71**
Forward foreign exchange contract	19	1,028	–	–	**1,028**
Electricity derivative	19	42,297	–	–	**42,297**
Interest rate SWAP	20	3,069	–	–	**3,069**
Financial liabilities at amortised cost					
Loans and borrowings	18	–	655,589	–	**655,589**
Total financial liability		**46,465**	**655,589**	**–**	**702,054**

(in thousands of EUR)

27. Financial instruments and financial risk factors (continued)

(g) Fair values (continued)

31 December 2009	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Financial assets held for trading					
Bank deposits with maturity of three months or less	14	–	–	39,724	**39,724**
Deposits with maturity of 3-12 months	15	–	–	691	**691**
Total financial assets		**–**	**–**	**40,415**	**40,415**
Financial liabilities					
Derivative financial instruments					
Electricity derivative	19	1,718	–	–	**1,718**
Interest rate SWAP	20	76	–	–	**76**
Financial liabilities at amortised cost					
Loans and borrowings	18	–	684,050	–	**684,050**
Total financial liability		**1,794**	**684,050**	**–**	**685,844**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs (Level 2) is represented by Put and Call option described in Note 16. Applied valuation techniques include Monte-Carlo simulation in the Black-Scholes framework, where underlying stock price follows Geometric Brownian Motion process with the drift corresponding to risk-free rates term structure. The model incorporates various inputs including stock pricing as at valuation dates, volatilities of shares and risk free rates.

As at the date of the first recognition of the Put and Call option - 18 June 2010 - the loss in amount of EUR 25,537 thousand was immediately recognized in profit and loss statement as it was determined by use of a valuation technique in which all inputs include data from observable markets. For the period from the date of the first recognition till the reporting date the additional loss in the amount EUR 12,849 thousand was recognized in profit and loss statement in accordance with the valuation technique.

As at 31 December 2010 market price of the shares equaled to EUR 0.00119 per share (RUR 0.04810 per share); as at the date of the first recognition - EUR 0.00125 per share (RUR 0.04770 per share). Put option price as at 31 December 2010 equaled to EUR 0.00104 per share (RUR 0.04210 per share); as at the date of the first recognition - EUR 0.00105 per share (RUR 0.04020 per share). Call option price equaled to EUR 0.00107 per share (RUR 0.04330 per share); as at the date of the first recognition - EUR 0.00110 per share (RUR 0.04209 per share).

If the market price of the shares as at 31 December 2010 would have been a 10% higher, with all other variables held constant, the hypothetical effect on income for the year ended 31 December 2010 would have been an income of EUR 15 thousand.

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2010	*31 December 2009*
Less than one year	6,341	4,054
Between one and five years	3,741	3,961
Over five years	6,809	14,507
	16,892	**22,522**

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

(in thousands of EUR)

28. Operating leases (continued)

The Group also has lease agreements which have indefinite periods and which are not included in the table above. Annual payments for 2010 year on such lease contracts are EUR 130 thousand.

During the year ended 31 December 2010 EUR 10,412 thousand (year ended 31 December 2009: EUR 7,268 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating lease expenses.

29. Commitments

Investment commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisations of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments as at 31 December 2010 are as follows:

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

As at 31 December 2010 management considers that realisation of investment commitments was in line with schedule for the year 2010.

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

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

As at 31 December 2010, the Group is in compliance with the Moldavia investment program. The authorised body of Transnistria accepted the fulfilment of investment commitments for USD 122,402 thousand, out of which USD 50,200 thousand is to be invested into JSC Moldavskaya GRES if and when needed in the course of normal business activities. The remaining part of the investment commitments (USD 24,307 thousand) are to be realised by May of 2011.

As at 31 December 2010 one of the Group entities CJSC Electrolutch has short-term investment commitments to CJSC NT SMU-333 for reconstruction and renovation works of office buildings 2, 3 and 3a amounted to EUR 26,427 thousand. All reconstruction and renovation works are to be finished in October 2011.

In accordance with agreements signed by the Group, investment commitments of the Group in relation to branches of the Parent company in the Russian Federation amounted to EUR 20,256 thousand (31 December 2009: EUR 55,593 thousand).

30. Contingencies

(a) Political environment

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

(in thousands of EUR)

30. Contingencies (continued)

(b) Insurance

The insurance industry in Russia and other CIS countries is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations in Russia and other CIS countries.

In May 2008 management of the Parent Company has approved the main principles of a policy on insurance in relation to risks related to the Parent Company's activities. The policy covers risks in relation to property aspects, activities of hydro-technical equipment and highly hazardous equipment.

In 2010 the Board of Directors approved the new edition of the regulations on insurance protection of the Group, which establishes standards for insurance coverage and procedure for interaction between the Parent company and its subsidiaries and associates. Based on these regulations there have been developed the relevant regulations in key subsidiaries. Thus in 2010 the Group has adopted the unified corporate standards for the asset insurance coverage. Since 2011 the Groups' assets located on territory of the Russian Federation are been insured for its replacement value. Also since 2011 the Group performs the technical risk assessment and valuation is in relation to the major foreign assets.

However until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Litigation

Legal proceedings

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

	31 December 2010	***31 December 2009***
Subcontractors claims	–	10,627
Customer's complaints	63,263	177
	63,263	**10,804**

As at 31 December 2010 the Group successfully defended its position in Moscow arbitration court in relation to certain subcontractor claims existed as at 31 December 2009.

In customer's complaints as at 31 December 2010 and 31 December 2009 the Group had a number of legal claims the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in the consolidated financial statements. Customer's complaints as at 31 December 2010 include claim letters from the company Bir Energy Elektrik Toptan Satis Ithalat Ihracat to TGR Energji Elektrik Toptan Ticaret A.S. asserting that the former failed to deliver electricity in favor of Bir Energy under the contract for the sale of electricity.

(d) Tax contingencies

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

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

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

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

(in thousands of EUR)

30. Contingencies (continued)

(d) Tax contingency (continued)

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

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies as at 31 December 2010 if the tax positions would be successfully challenged in the amount of EUR 10,267 thousand (as at 31 December 2009 EUR 5,522 thousand).

Environmental matters

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

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

(e) Ownership of transmission lines

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

31. Related party transactions

(a) Parent company and control relationships

As at 31 December 2009 State Corporation Rosatom held 57.34% of the voting shares of JSC INTER RAO UES. Under the additional issue of shares approved on 21 December 2009 by the shareholders of the Parent company on 18 June 2010 State Corporation Vnesheconombank purchased 529,303 million of shares under the closed subscription (see Note 1). As a result the share issue as at 31 December 2010 State Corporation Rosatom held 33.4% of the voting shares of the Company. The Russian Federation owned 100% of State Corporation Rosatom. After that date details of operations with entities controlled by Rosatom are provided in the note (d). Information on transactions with entities of the State Corporation Rosatom is presented below:

	The year ended 31 December 2010	*The year ended 31 December 2009*
Revenue:		
Electricity and capacity	5,144	12,322
Other revenues	73	24
	5,217	**12,346**

	The year ended 31 December 2010	*The year ended 31 December 2009*
Purchases:		
Purchased power and capacity	15,866	23,458
Other purchases	799	306
	16,665	**23,764**

(in thousands of EUR)

31. Related party transactions (continued)

(b) Transactions with key management personnel

The members of the Management Board own 0.1106% of the ordinary shares of JSC INTER RAO.

Compensation paid to key management for their service in that capacity is made up of contractual salary and performance bonuses. Key management received the following remuneration during the year, which is included in wages, benefits and payroll taxes (see Note 24):

	The year ended 31 December 2010	*The year ended 31 December 2009*
Salaries and bonuses	7,220	2,821
Employee's Share Option Programme	1,184	10,544
	8,404	**13,365**

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

Participation in the Programme and the exact number of shares in the participants' individual share option agreements are determined by decision of Board of Directors of the Company. On 21 September 2009 the Company's Board of Directors approved the final form and conditions of the Share Option Programme. These stipulated exact number of shares to which participants in the programme were entitled and their fixed exercise price. The number of shares, which the Programme participants may purchase within the framework of the Programme, is calculated proportionally based on the number of days worked prior to terminating the employment provided that termination meets certain conditions of Labor Code or in full amount based on decision of Chairman of the Board. In the case of breaching certain defined provisions of the labor agreement and terminating employment at the initiative of the Group the Programme participants will lose their right to purchase the shares.

Corresponding agreements with determined share price and quantity were signed by Programme participants immediately after that date.

A total of up to 46,000,000,008 ordinary shares were allocated under the Programme. 23,000,000,004 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares obtained by JSC INTER RAO Capital (former JSC INTER RAO UES Baltic operator of the Programme, as a result of the Company's reorganization. The Programme participants can exercise the share option at any time over the period from 23 June 2010 through 23 May 2011. As at 31 December 2010 44,316,119,979 of share options were exercised. Cash proceeds for the Group amounted to EUR 7,808 thousand.

	All options granted under the Programme	*Attributed to members of the Managements Board*
Number of options as at 1 January 2009		
Option agreements signed in 2009	46,000,000,008	23,000,000,004
Number of options as at 31 December 2009	**46,000,000,008**	**23,000,000,004**
Option agreements exercised during 2010	(44,316,119,979)	(23,000,000,004)
Number of options outstanding and exercisable as at 31 December 2010	**1,683,880,029**	**–**

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

	31 December 2010	*31 December 2009*
Share price (in EUR)	0.000619847	0.000619847
Exercise price of exercisable share based options (in EUR)	0.000159453	0.000159453
Expected volatility	110.5%	110.5%
Option life	608 days	608 days
Risk-free interest rate	10.05%	10.05%
Graded vesting - cumulative percentage allocation	100%	89.91%
Fair value of the option at measurement date (in EUR)	0.000509874	0.000509874

(in thousands of EUR)

31. Related party transactions (continued)

(b) Transactions with key management personnel (continued)

To determine volatility the Group used the historical volatility of the share prices of its publicly traded shares. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme. For the year ended 31 December 2010 the Group recognised an expense of EUR 2,365 thousand (31 December 2009 EUR 21,089 thousand) within employee benefit expenses in the consolidated statement of comprehensive income related to the fair value of the options.

(c) Transactions with associates and jointly controlled entities

Detail list of the Group's jointly controlled entities and associates is disclosed in Note 9.

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

	The year ended 31 December 2010	*The year ended 31 December 2009*
Revenue:		
Jointly-controlled entities	–	182
Associate	8,794	2,861
Interest income:		
Jointly-controlled entity	9	11
Dividend income:		
Jointly-controlled entity	1,942	2,902
Associate	6,349	–
	17,094	**5,956**
Purchased power:		
Jointly-controlled entity	820	305
Associates	–	561
Other expenses:		
Jointly-controlled entity	116	–
Associates	11	–
	947	**866**

	31 December 2010	*31 December 2009*
Accounts receivable:		
Jointly-controlled entities	–	694
Associates	1,922	–
Loans issued:		
Jointly-controlled entities	4,711	130
Accounts payable:		
Associates	5,379	–

(in thousands of EUR)

31. Related party transactions (continued)

(d) Transactions with enterprises controlled by the Russian Federation

As at 31 December 2010 State Corporation Rosatom owned 33.4%, 100% subsidiary of State Corporation Rosatom Rosenergoatom owned 11.68%, State Corporation Vneshekonombank owned 18.2958% of the voting shares of JSC INTER RAO UES. As at 31December 2010 the State of the Russian Federation owned 100% of State Corporation Rosatom and State Corporation Vneshekonombank. Information on transactions with entities controlled by State Corporations or State Authorities of the Russian Federation presented below:

	The year ended 31 December 2010	***The year ended 31 December 2009***
Revenue:		
Electricity and capacity	312,369	221,346
Other revenues:	4,076	3,204
	316,445	**224,550**
Operating expenses		
Purchased power and capacity	166,458	51,816
Transmission fees/Agency fees to RAO UES	97,329	64,968
Fuel expense (gas)	145,710	110,861
Other purchases	17,220	51,070
Other expenses	7	25
	426,704	**278,740**
Capital expenditures	**31,616**	**81,373**

	The year ended 31 December 2010	***The year ended 31 December 2009***
Income and expenses:		
Interest income	(3,085)	(2,052)
Interest expenses	41,043	31,424
Other finance expenses (Note 25)	38,386	–
	76,344	**29,372**

	31 December 2010	***31 December 2009***
Other non-current assets :		
Long-term derivative financial instruments – assets (Note 11)	62,999	–

	The year ended 31 December 2010	***The year ended 31 December 2009***
Investment to other non-current assets	120,934	147,395

	31 December 2010	***31 December 2009***
Other non-current assets	–	45,747
Other current assets	6,824	–

	31 December 2010	***31 December 2009***
Accounts receivable:		
Trade accounts receivable gross	19,202	10,077
Less impairment provision	(2,679)	(1,583)
Trade receivables - net	**16,523**	**8,494**
Advances issued	3,010	5,043
Advances issued for capital construction	10,776	23,578
Other receivable	282	1,084
	30,591	**38,199**

(in thousands of EUR)

31. Related party transactions (continued)

(d) Transactions with enterprises controlled by the Russian Federation (continued)

	31 December 2010	*31 December 2009*
Accounts payable:		
Trade accounts payable	19,231	7,509
Payables for capital construction	863	12,112
Other accounts payable	15,413	10,736
Advances received	15	28
Special-purpose financing (see Note 19)	357,762	216,701
	393,284	**247,086**

	31 December 2010	*31 December 2009*
Loans and borrowings payable:		
Short-term loans	20,466	73,401
Long-term loans	300,800	411,495
Interest on loans	2,440	2,609
	323,706	**487,505**

	31 December 2010	*31 December 2009*
Cash and cash equivalents	46,931	63,002

	31 December 2010	*31 December 2009*
Other current assets (bank deposits)	–	691

	The year ended 31 December 2010	*The year ended 31 December 2009*
Financial transactions:		
Loans and borrowings received	146,61	310,406
Loans and borrowings repaid	(379,306)	(130,618)

(e) Transactions with other related parties

Amounts of transactions with other related parties (except for those controlled by the Government of the Russian Federation, equity investees and joint ventures), for each of the reporting periods ending 31 December, as well as related party balances as at 31 December 2010 and 31 December 2009 are provided below:

	31 December 2010	*31 December 2009*
Loans and borrowings payable:		
Long-term loan received	15,000	–

	31 December 2010	*31 December 2009*
Cash and cash equivalents:		
Current accounts balances	568	–

	31 December 2010	*31 December 2009*
Income and expenses:		
Interest expenses	2,289	–

(in thousands of EUR)

32. Entities under trust management

The entities under trust management of the Group are disclosed in the table below:

	Country of incorporation	*31 Decembe 2010 % of voting shares*	*31 December 2009 % of voting shares*
Distributing and trading entities			
JSC Altayenergosbyit	Russian Federation	100%	–
JSC Mosenergosbyit	Russian Federation	51%	–
JSC Obyedinyenaya Energosbyitovaya Companiya	Russian Federation	100%	–
JSC Saratovenergo	Russian Federation	64%	–
JSC Tambovskaya Energosbyitovaya Companiya	Russian Federation	56%	–
Generating entities			
JSC Khramesi I	Georgia	100%	100%
JSC Khramesi II	Georgia	100%	100%
CJSC Armenian nuclear power station	Armenia	100%	100%
JSC OGK-1	Russian Federation	42,2%	61,9%
LLC Niznevartovskaya GRES (a joint ventiure of JSC OGK-1, ownership is equal 75 % as at 31 December 2010 and 2009)	Russian Federation	–	–

These entities were not consolidated in these financial statements. The Group's transactions with the entities under trust management are disclosed below.

	The year ended 31 December 2010	*The year ended 31 December 2009*
Revenue:		
Electricity and capacity	22,981	11,730
Management fees:	18,010	3,495
	40,992	**15,225**

	The year ended 31 December 2010	*The year ended 31 December 2009*
Purchases:		
Purchased power and capacity	140,841	66,565
Other expenses:	368	250
	141,209	**66,815**

	31 December 2010	*31 December 2009*
Accounts receivable:		
Trade accounts receivable gross	85	5,195
Advances issued	–	47
Loans issued	1,160	29,257
Other receivable	1,061	3,091
	2,306	**37,590**

	31 December 2010	*31 December 2009*
Accounts payable:		
Trade accounts payable	5,924	5,156
Advances received	8	–
	5,932	**5,156**

The balances of transaction with JSC OGK-1 as at 31 December are provided in the Note 31 (c), detail of recession of trust management agreement are disclosed in Note 5.

(in thousands of EUR)

33. Significant subsidiaries

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

	Country of incorporation	***31 December 2010 Ownership/ voting***	***31 December 2009 Ownership/ voting***
Distributing and trading entities			
RAO Nordic Oy[1]	Finland	100%	100%
JSC Telasi	Georgia	75%	75%
CJSC Elektricheskiye seti Armenii (Note 5)	Armenia	100%	100%
TGR Energji Elektrik Toptan Ticaret A.S.	Turkey	70%	70%
UAB INTER RAO Lietuva	Lithuania	51%	51%
LLP Kazenergoresurs (Note 5)	Kazakhstan	76%	76%
SIA INTER RAO Latvia	Latvia	51%	–
INTER RAO Eesti	Estonia	51%	–
LLP INTER RAO Central Asia	Kazakhstan	100%	100%
JSC Industrial Energetics	Russian Federation	75%	–
Generating entities			
Mtkvari Energy LLC	Georgia	100%	100%
CJSC International Power Corporation	Armenia	90%	90%
CJSC Moldavskaya GRES	Moldova, Transnistria	100%	100%
JSC Ispytatelniy Stend Ivanovskoy GRES	Russian Federation	82.84%	82.84%
Holding entities			
Interenergo B.V.	Netherlands	100%	100%
Silk Road Holdings B.V.	Netherlands	100%	100%
Gardabani Holdings B.V.	Netherlands	100%	100%
ES Georgia Holdings B.V.	Netherlands	100%	100%
SAINT-GUIDON INVEST N.V.	Belgium	100%	100%
Freecom Trading Limited	Cyprus	100%	100%
INTER RAO Holding B.V.	Netherlands	100%	100%
INTER RAO Middle East B.V.	Netherlands	100%	–
RAO Intertech B.V.	Netherlands	100%	–
Service entities			
Energospetsserviceobslyzhivanie	Moldova, Transnistria	80%	80%
LLC INTER RAO SERVICE	Russian Federation	99.99%	99.99%
Other entity			
JSC INTER RAO UES Capital	Russian Federation	100%	100%
LLC RAO UES INTERNATIONAL FINANCE	Russian Federation	100%	100%
JSC Eastern energy company	Russian Federation	100%	100%
INTER RAO Trust B.V.	Netherlands	100%	100%
Asia Energy B.V.	Netherlands	100%	100%
Silverteria Holdings Limited	Cyprus	100%	100%
CJSC Electrolutch (Note 5)	Russian Federation	97.78%	97.78%
OrangeWings Limited	British Virgin Island	100%	100%
LLC Inter RAO Invest	Russian Federation	100%	100%
LLP Nedra Kazakhstana (Note 5)	Kazakhstan	74.48%	74.48%

34. Events after the reporting period

1. Group structure

In February 2011 the Group established a 100% subsidiary, LLC INTER RAO – Management of Electric Power Plants, the main activity of which is management of electric power plants located in Russian Federation.

In March 2011 the Group established two new subsidiaries INTER RAO FINANCE B.V. and INTER RAO CREDIT B.V., which will be responsible for Group borrowings being placed on international and local capital markets.

On 22 March 2011 the Group sold its subsidiary CJSC International Power Corporation, a hydro generation plant in Armenia, to JSC Hydroinvest, the subsidiary of RusHydro Group.

[1] RAO Nordic Oy also act as a holding company for certain Group entities

(in thousands of EUR)

34. Events after the reporting period (continued)

1. Group structure (continued)

On 13 April 2011 the Group acquired 100% of the hydro generation plants Khramesi I and II in Georgia, which previously were under asset management of the Group.

In April 2011 for the purpose of acquisition of Lithuanian electricity wind-generating company UAB Veju Spektras new entity UAB IRL Wind was registered as a 100% subsidiary of UAB INTER RAO Lietuva (the Group's subsidiary).

In April 2011 for the purpose of acquisition of CJSC Svetlana-Optoelectronics, the producer of semiconductor components located in Saint-Petersburg (the Russian Federation), the Parent company acquired 35.19% interest in JSC INTER RAO LED-Systems which is a 100% shareholder of CJSC Svetlana-Optoelectronics.

2. Additional issue of shares by the Parent company

On 21 February 2011 the Extraordinary Shareholders meeting approved the issue cost of the additional ordinary shares in the amount of RUR 0.0535 per share and other substantive conditions of the additional issue of 13.8 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each. During 45 days since 17 January 2011 the shareholders of the Parent bought out under the pre-emptive right 39,668 million shares for the total consideration of RUR 2,122 million or EUR 52.6 million, which is 1.37% from the share capital as at the reporting date. During March-May 2011 JSC RusHydro, JSC FGC UES, LLC Indeks energetiki – FGC UES, LLC Indeks energetiki – HydroOGK, Federal Agency of State Property Management, Federal Hydrogenerating Company and CSJC INTER RAO Capital purchased 6,822,973 million shares for the total consideration RUR 365,029 million or EUR 9,199 million, which was settled by transferring of shares in the following companies:

	Held as at 31December 2010			*Acquired through additional issue in 2011*			*Held as at 25 May 2011*		
Acquired investment	***% of ordinary shares***	***% of preference shares***	***% share capital***	***% of ordinary shares***	***% of preference shares***	***% share capital***	***% of ordinary shares***	***% of preference shares***	***% share capital***
Hrazdan Energy Company (RazTES)	–	–	–	100%	–	100%	100%	–	100%
JSC Altayenergosbyt	–	–	–	100%	–	100%	100%	–	100%
JSC United Energy Retailing Company	–	–	–	100%	–	100%	100%	–	100%
JSC Saint-Petersburg Sale Company	24.99%	37.03%	26.75%	67.10%	28.98%	61.52%	92.09%	66.01%	88.27%
JSC WGK-3	–	–		81.93%	–	81.93%	81.93%	–	81.93%
JSC OGK-1	29.03%	–	29.03%	45.99%	–	45.99%	75.02%	–	75.02%
JSC TGK-11	32.96%	–	32.96%	34.57%	–	34.57%	67.53%	–	67.53%
JSC Tambov Energy Retailing Company	–	–	–	67.87%	–	59.38%	67.87%	–	59.38%
JSC Saratovenergo	–	–	–	74.46%	–	56.97%	74.46%	–	56.97%
JSC Mosenergosbyt	–	–	–	50.92%	–	50.92%	50.92%	–	50.92%
JSC Irkutskenergo	–	–	–	40.01%	–	40.01%	40.01%	–	40.01%
JSC Volga TGC	–	–	–	32.44%	–	32.44%	32.44%	–	32.44%
JSC Tomsk Energy Retailing Company	–	–	–	28.27%	51.14%	31.27%	28.27%	51.14%	31.27%
JSC Enel OGK-5	–	–	–	26.43%	–	26.43%	26.43%	–	26.43%
JSC Kuban Energy Retailing Company	–	–	–	26.26%	–	26.26%	26.26%	–	26.26%
JSC Kuban Generating Company	–	–	–	26.26%	–	26.26%	26.26%	–	26.26%
JSC TGC-6	–	–	–	26.08%	–	26.08%	26.08%	–	26.08%
JSC Bashkirenergo	–	–	–	22.42%	18.35%	22.23%	22.42%	18.35%	22.23%

At the date of approval of these consolidated financial statements the additional issue of shares has not been registered by Russian Federal Financial Market Service and the Company has not yet completed the assessment of the effects of the acquisition of the above companies.

(in thousands of EUR)

34. Events after the reporting period (continued)

3. Bonds

The Board of Directors approved the issue of bonds by the Parent with the total nominal value of RUR 100 billion for the purpose of financing for working capital, corporate needs and refinancing of current loans. The programme is split into 16 issues with nominal value of minimum RUR 5 billion and maximum RUR 10 billion each issue. The bonds with a par value of RUR 1,000 are redeemable in 3 years period. The bonds can be issued at any date after the registration of the prospectus made on 20 April 2011 based on the decision of the management and in case of objective necessity in financing and prevailing favorable market conditions on the capital markets at the time of placement.

4. Dividends

On 16 May 2011 the Board of Directors decided to recommend to the shareholders to distribute the dividends in respect of the year ended 31 December 2010 in the amount of EUR 3,777 thousand (RUR 150,015 thousand) or EUR 0.00000039 (RUR 0.00001544) per share at the Central Bank of Russian Federation exchange rate as at 16 May 2011.

5. Loans and borrowings

On 25 February 2011 the Parent company obtained a credit line from JSC “Alfa-Bank” in the amount of RUR 3.8 billion with a fixed interest rate of 7.5% for the purposes of financing of current operating activities. Maturity date of long-term borrowings is 31 December 2015.

On 25 February 2011 the Parent company obtained two credit lines from JSC Gazprombank, for the purpose of financing the current operating activities, in the amount of RUR 1.7 billion and RUR 0.5 billion with the fixed interest rates 7.95% and 7.75% respectively. Maturity date of these borrowings is 7 June 2013.

On 25 February 2011 the Parent company made the advanced repayment of long-term borrowings (vi) and (xi), amounted in total to EUR 75,621 thousand (see Note 18).