JSC INTER RAO UES

Consolidated interim financial statements

For the six months ended 30 June 2011
(Unaudited)

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Report on review of consolidated interim financial statements

To the shareholders of OJSC INTER RAO UES

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of JSC INTER RAO UES and its subsidiaries (the "Group") as at 30 June 2011 and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2011 and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Ernst & Young LLC

19 October 2011

Consolidated interim statement of financial position

(in millions of RUR)

	Note	*30 June 2011*	*31 December 2010 (restated)*
Assets			
Non-current assets			
Property, plant and equipment	6	215,177	118,510
Investment property	7	1,087	1,094
Intangible assets	8	3,988	3,276
Investments in associates and jointly controlled entities	9	20,549	19,510
Deferred tax assets	10	721	1,416
Available-for-sale financial assets	11	67,782	202
Other non-current assets	12	7,307	6,771
Total non-current assets		**316,611**	**150,779**
Current assets			
Inventories	13	9,615	5,834
Accounts receivable and prepayments	14	42,285	40,346
Income tax prepaid		2,455	407
Cash and cash equivalents	15	51,390	31,207
Other current assets	17	33,525	18,147
		139,270	**95,941**
Assets classified as held-for-sale	16	59,903	–
Total current assets		**199,173**	**95,941**
Total assets		**515,784**	**246,720**
Equity and liabilities			
Equity			
Share capital	18	272,997	81,287
Treasury shares	18	(37,536)	(1,173)
Share premium	18	69,706	11,460
Hedge reserve	18	245	(1,230)
Fair value reserve	18	(9,777)	(10)
Foreign currency translation reserve		(2,837)	(1,671)
Retained Earnings		49,365	27,301
Total equity attributable to shareholders of the Company		**342,163**	**115,964**
Non-controlling interest		45,109	22,611
Total equity		**387,272**	**138,575**
Non-current liabilities			
Loans and borrowings	20	44,713	32,598
Deferred tax liabilities	10	15,346	6,182
Other non-current liabilities	22	7,127	2,373
Total non-current liabilities		**67,186**	**41,153**
Current liabilities			
Loans and borrowings	20	5,079	5,936
Accounts payable and accrued liabilities	21	50,844	56,413
Other taxes payable	23	4,780	3,574
Income tax payable		623	1,069
Total current liabilities		**61,326**	**66,992**
Total liabilities		**128,512**	**108,145**
Total equity and liabilities		**515,784**	**246,720**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

19 October 2011

The consolidated interim statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 9 to 88.

Consolidated interim statement of comprehensive income

(in millions of RUR)

	Note	For the six months ended 30 June 2011	For the six months ended 30 June 2010 (restated)
Revenue	24	253,932	205,863
Other operating income	25	2,215	1,306
Operating expenses	26	(242,045)	(195,450)
Operating profit		**14,102**	**11,719**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	5, 16	40,600	–
Finance income	27	6,658	500
Finance expenses	27	(8,522)	(4,530)
Share of profit of associates and jointly controlled entities	9	1,530	338
Profit before income tax		**54,368**	**8,027**
Total income tax expense	28	(4,561)	(2,810)
Profit for the period		**49,807**	**5,217**
Other comprehensive (expense) / income			
Revaluation of the available-for-sale financial assets, net of tax	11, 16	(9,775)	18
Hedge reserve, net of tax	18	1,475	(87)
Exchange (loss) / gain on translation to presentation currency		(1,091)	222
Other comprehensive (expense) / income, net of tax		**(9,391)**	**153**
Total comprehensive income for the period		**40,416**	**5,370**
Profit attributable to:			
Shareholders of the Company		46,610	2,783
Non-controlling interest		3,197	2,434
		49,807	**5,217**
Total comprehensive income attributable to:			
Shareholders of the Company		37,152	2,950
Non-controlling interest		3,264	2,420
		40,416	**5,370**
Basic earnings per ordinary share for profit attributable to the shareholders of the Company	19	**RUR 0.00766**	**RUR 0.00090**
Diluted earnings per ordinary share for profit attributable to the shareholders of the Company	19	**RUR 0.00766**	**RUR 0.00089**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

19 October 2011

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 9 to 88.

Consolidated interim statement of cash flows

(in millions of RUR)

	Note	*For the six months ended 30 June* 2011	*For the six months ended 30 June* 2010 (restated)
Operating activities			
Profit before income tax		**54,368**	**8,027**
Adjustments to reconcile profit before tax to net cash provided by operations:			
Depreciation and amortisation of property, plant and equipment	26	5,234	3,327
Depreciation and amortisation of investment property	26	9	9
Amortisation of intangible assets	26	226	178
Provision for impairment of accounts receivable	26	2,448	1,676
Other provisions charge / (release)	26	232	(431)
Impairment of available-for-sale financial assets	26	833	–
Write off of bad debt which was not previously provided charge / (release)	26	116	(24)
Impairment of property, plant and equipment charge / (release)	26	80	(39)
Reversal of impairment of investment property	7	–	(230)
Impairment of intangible assets	26	22	–
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	5, 16	(40,600)	–
Share of profit of associates and jointly controlled entities	9	(1,530)	(338)
Loss on disposal of property plant and equipment	26	32	32
Gain on disposal of controlling interest	25	(258)	–
Income from derivatives trading operations on the electricity market	25	(728)	(480)
Expenses from derivatives trading operations on the electricity market	26	1,009	777
Foreign exchange gain		(202)	(191)
Interest income	27	(5,777)	(436)
Other finance income	27	(114)	(64)
Interest expense	27	1,925	2,309
Other finance expense	27	239	60
Government grants / subsidies	24	(9)	(2)
Dividend income		(767)	–
Option plan - (gain) / loss	33	(1)	105
Put and call option agreement	27	6,095	2,093
Other non-cash operations/items		(5)	8
Operating cash flows before working capital changes and income tax paid		**22,877**	**16,366**
(Increase) / decrease in inventories		(1,134)	44
Decrease / (increase) in accounts receivable and prepayments		9,915	(1,564)
Decrease in value added tax recoverable		571	363
Decrease / (increase) in other current assets		904	(5,696)
Increase in accounts payable and accrued liabilities		565	1,215
Increase in pension liabilities		48	20
(Decrease) / increase in taxes other than on income prepaid and payable, net		(3)	34
Income tax paid		(3,464)	(585)
Currency translation effect		(124)	(186)
Net cash flows received from operating activities		**30,155**	**10,011**

The consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 9 to 88.

Consolidated interim statement of cash flows (continued)

(in millions of RUR)

	Note	For the six months ended 30 June 2011	For the six months ended 30 June 2010 (restated)
Investing activities			
Proceeds from disposal of property, plant and equipment		8	17
Interest received		1	1
Purchase of property, plant and equipment and intangible assets		(11,498)	(6,436)
Purchase of associates and jointly controlled entities		(4)	–
Purchase of controlling interest, net of cash acquired	5	12,751	(140)
Purchase of non-controlling interest in subsidiary		(40)	–
Purchase of available-for-sale financial assets	11	(600)	–
Proceeds from disposal of controlling interest	5	126	–
Proceeds from repayment of loans issued		19	267
Loans issued		–	(13)
Bank deposits opened		(10,310)	(529)
Proceeds from bank deposits		1,275	227
Proceeds from disposal of other non-current assets		13	196
Dividends received	9	72	12
Net cash flows used for investing activities		**(8,187)**	**(6,398)**
Financing activities			
Proceeds from borrowings		99,915	49,352
Repayment of borrowings		(100,980)	(54,605)
Repayment of lease		(327)	(313)
Interest paid		(1,300)	(2,392)
Dividends paid	18	–	(253)
Proceeds from issuance of additional shares	18	50	24,880
Disposal of non-controlling interest of subsidiary	5	256	–
Proceeds from treasury shares redemption		327	31
Net cash flows (used for) / received from financing activities		**(2,059)**	**16,700**
Effect of exchange rate fluctuations on cash and cash equivalents		274	(18)
Net increase in cash and cash equivalents		**20,183**	**20,295**
Cash and cash equivalents at the beginning of the year		31,207	14,701
Cash and cash equivalents at the end of the period	15	**51,390**	**34,996**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

19 October 2011

The consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 9 to 88.

Consolidated interim statement of changes in equity

(in millions of RUR)

		Attributable to shareholders of the Company									
	Note	***Share capital registered***	***Treasury shares***	***Share premium***	***Foreign currency translation reserve***	***Fair value reserve***	***Hedge reserve***	***Accumulated earnings/ (deficit)***	***Total***	***Non-controlling interest***	***Total equity***
Balance at 1 January 2010 (restated)		63,897	(2,755)	–	(1,642)	(25)	5	17,733	77,213	18,278	95,491
Total comprehensive income / (expense) for six months ended 30 June 2010		–	–	–	242	12	(87)	2,783	2,950	2,420	5,370
Dividends to shareholders	18	–	–	–	–	–	–	(56)	**(56)**	(198)	**(254)**
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	211	**211**	(347)	**(136)**
Additional issue of shares	18	17,390	–	7,490	–	–	–	–	**24,880**	–	**24,880**
Put and call option agreement	18	–	–	3,970	–	–	–	–	**3,970**	–	**3,970**
Shares option plan	33	–	122	–	–	–	–	15	**137**	–	**137**
		17,390	**122**	**11,460**	**–**	**–**	**–**	**170**	**29,142**	**(545)**	**28,597**
Balance at 30 June 2010 (restated)		**81,287**	**(2,633)**	**11,460**	**(1,400)**	**(13)**	**(82)**	**20,686**	**109,305**	**20,153**	**129,458**
Balance at 1 January 2011 (restated)		**81,287**	**(1,173)**	**11,460**	**(1,671)**	**(10)**	**(1,230)**	**27,301**	**115,964**	**22,611**	**138,575**
Total comprehensive income / (expense) for six months ended 30 June 2011		**–**	**–**	**–**	**(1,166)**	**(9,767)**	**1,475**	**46,610**	**37,152**	**3,264**	**40,416**
Dividends to shareholders	18	–	–	–	–	–	–	(150)	**(150)**	(460)	**(610)**
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	(164)	**(164)**	(80)	**(244)**
Disposal of non-controlling interest in subsidiary	5	–	–	–	–	–	–	221	**221**	34	**255**
Additional issue of shares	1, 18	191,710	(36,619)	58,246	–	–	–	(24,511)	**188,826**	19,740	**208,566**
Shares option plan	33	–	46	–	–	–	–	(47)	**(1)**	–	**(1)**
Sale of treasury shares	18	–	210	–	–	–	–	105	**315**	–	**315**
		191,710	**(36,363)**	**58,246**	**–**	**–**	**–**	**(24,546)**	**189,047**	**19,234**	**208,281**
Balance at 30 June 2011		**272,997**	**(37,536)**	**69,706**	**(2,837)**	**(9,777)**	**245**	**49,365**	**342,163**	**45,109**	**387,272**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

19 October 2011

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 9 to 88.

(in million of RUR)

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".

The Russian Federation is the ultimate controlling party of JSC INTER RAO UES and has a controlling interest in the company of over 50% (including both direct, 14.8%, and indirect ownership, 60.3% as at 30 June 2011). The State does not prepare consolidated financial statements for public use.

The Company operates four power plants located in different regions of Russia and has controlling interests in a number of subsidiaries. During six month ended 30 June 2011 the Group incorporated and acquired a number of new companies that are engaged in electricity production, supply and other activities as presented in Note 5 and Note 1. The Group's principal subsidiaries as at 30 June 2011 are presented in Note 35.

The Group performs the following types of business activity:

- Electricity production, supply 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;
- Engineering;
- Energy effectiveness.

At 30 June 2011 the number of employees of the Group was 47,395 (30 June 2010: 34,897).

With effect from 25 July 2008 the Company's registered office is entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, Russia. With effect from 29 July 2011 the Company's registered office is entrance 3, Bolshaya Pirogovskaya – 27, 119435, 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 the 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 interim 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.

Additional issue of shares by the Parent company

On the meeting held on 25 June 2010 Board of Directors approved the issue of 13.8 billion ordinary shares of JSC INTER RAO UES with the nominal value of RUR 0.02809767 each. During the 1st half 2011, INTER RAO UES issued 6,822,972,629,771 additional shares with the corresponding increase of RUR 191,710 million in share capital (registered).

(in million of RUR)

1. The Group and its operations (continued)

As a result of placing additional shares, JSC INTER RAO UES became the owner of the following assets:

Subsidiaries (Note 5)	***Held as at 31 December 2010***	***Acquired through additional issue during the 1st half 2011***		***Other acquisitions (not through additional issue)***	***Held as at 30 June 2011***
		% share capital			
	% share capital	***From entities under common control***	***From other parties***	***% share capital***	***% share capital***
Hrazdan Energy Company (RazTES)	–	100.00	–	–	100.00
JSC Altayenergosbyt	–	100.00	–	–	100.00
JSC United Energy Retailing Company	–	100.00	–	–	100.00
JSC Saint-Petersburg Sale Company (Group of companies)	26.75	61.52	–	4.25	92.52
JSC WGC-3 (Group of companies)	–	–	81.93	–	81.93
JSC OGK-1 (Group of companies)	29.03	45.14	0.98	–	75.15
JSC TGK-11 (Group of companies)	32.96	34.35	–	0.40	67.71
JSC Tambov Energy Retailing Company	–	59.38	–	–	59.38
JSC Saratovenergo	–	56.97	–	–	56.97
JSC Mosenergosbyt (Group of companies)	–	50.92	–	–	50.92

Investments in quoted shares

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC Volga TGC	39.39
JSC Bashkirenergo	26.65
JSC RusHydro	1.63
JSC OGK-4	3.26
JSC Mosenergo	5.05
JSC OGK-6	13.20
JSC TGC-6	26.08
JSC FGC UES	0.37
JSC OGK-2	3.05
JSC TGK-1	1.97
JSC RAO Energy System of East	4.29
JSC TGK-9	1.71
JSC Kuzbassenergo	1.97
JSC Quadra	2.25
JSC Yenisei TGC (TGC-13)	2.16
JSC TGK-2	1.19
JSC TGK-14	0.60
JSC Novosibirskenergo	0.16

Investments in unquoted shares

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC TGK-11 Holding	19.27
JSC Sangtudinskaya GES-1	14.48

(in million of RUR)

1. The Group and its operations (continued)

Assets classified as held-for-sale

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC Irkutskenergo	40.00
JSC Tomskenergosbyt	31.27
JSC Enel OGK-5	26.43
JSC Kuban Generation Company	26.26
JSC Kubanenergosbyt	26.26
JSC Fortum	3.04

2. Basis of preparation

(a) Statement of compliance

These consolidated interim 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.

(b) Basis of measurement

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

(c) Predecessor accounting

In the consolidated interim financial statements the Group accounted for certain acquisitions presented in the table below as acquisitions amongst entities under common control using the predecessor accounting method (or the pooling–of-interests method). Application of pooling–of-interests method assumes the comparatives are presented as if the entities acquired had always been consolidated. Accordingly, information in respect to the comparative period and the balances as at 1 January 2011 has been restated and prepared as if the acquisitions had occurred from the beginning of the earliest period presented.

The table below summarises the shareholding interest acquired from entities under common control in the 1st half of 2011 which have been accounted for under the pooling-of-interests method. The effect of the restatement of the Group's consolidated interim financial statements is presented in Note 2 (j).

	31 December 2009	***30 June 2010***	***31 December 2010***	***30 June 2011***
JSC RazTES	100.00%	100.00%	100.00%	100.00%
JSC Altayenergosbyt	100.00%	100.00%	100.00%	100.00%
JSC United Energy Retailing Company	100.00%	100.00%	100.00%	100.00%
JSC Saint-Petersburg Sale Company (Group of companies)	61.52%	61.52%	61.52%	61.52%
JSC OGK-1 (Group of companies)	66.17%	66.17%	45.14%	45.14%
JSC TGK-11 (Group of companies)	34.35%	34.35%	34.35%	34.35%
JSC Tambov Energy Retailing Company	49.01%	49.01%	59.38%	59.38%
JSC Saratovenergo	49.00%	49.00%	56.97%	56.97%
JSC Mosenergosbyt (Group of companies)	50.92%	50.92%	50.92%	50.92%

In December 2010 the share of entities under common control in share capital JSC OGK-1 was diluted from 66.17% to 45.14% due to the additional issue of ordinary shares made by JSC OGK-1. On 21 December 2010 the Group acquired 29.03% interest in the additional issue of shares of JSC OGK-1 (see Note 5).

In the 4th quarter 2010, the entity under common control acquired 10.37% of shares of JSC Tambov Energy Retailing Company and 7.97% of shares of JSC Saratovenergo.

(in million of RUR)

2. Basis of preparation (continued)

(d) 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.

Beginning from 1 January 2011 the consolidated financial statements are presented in millions of the Russian Roubles ("RUR") since management believes that this currency became a more useful measure for the potential users of the consolidated financial statements (shareholders and non-equity investors) as a result of the changes in the Group structure - after additional issue of shares made by the Parent in the first half 2011 the main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency.

All comparative information was revised from previous presentation currency (thousands of European Euros) to millions of RUR correspondingly (see also Note 2 (j)).

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.

(e) 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.

(f) 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.

(g) 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. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently (see Note 14).

(in million of RUR)

2. Basis of preparation (continued)

(g) Critical accounting estimates and judgments (continued)

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. Land and buildings are separable assets and are accounted for separately. Land has an unlimited useful life and therefore is not depreciated.

Loans and borrowings

As at 30 June 2011 the Group accounts for loans with a nominal value of RUR 4,317 million at an amortised cost of RUR 146 million (31 December 2010: a nominal value –RUR 4,486 million: an amortised cost – RUR 144 million). The amortised cost of these loans (see Note 20 (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 carrying value of loans and borrowings.

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 32.

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).

(h) Changes in presentation

Segment information

Starting from 1 January 2011, the Group presents segment information based on IFRS financial reporting (see Note 4) as after the additional issue of shares made by the Parent during the 1st half of 2011 chief operating decision-maker (further "CODM") decided to analyse the effectiveness of the operating segments based on IFRS data. The comparative information was revised correspondingly.

Loans and borrowing

Since 1 January 2011, management of the Company decided to change presentation of loans and borrowing (Note 20) with the emphasis given to a disclosure of loans and borrowings by foreign currencies and creditors rather than the list of certain credit agreements. Management believes that such presentation provides better representativeness of the credit and loan portfolio of the new Group. The comparative information was revised correspondingly.

(i) Changes in accounting policy

Beginning from 1 January 2011 the Group changed its accounting policy regarding property, plant and equipment from revaluation model to historical cost model (see Note 3). Management believes that given the difficulties in understanding the effects on the financial statements from the application of the revaluation model and given that the most companies in the electricity and power utilities market apply the cost model of accounting of property, plant and equipment, change in accounting policy will lead to more reliable and relevant information regarding property, plant and equipment and improved comparability of the financial statements of the Group to its peers in electricity and power market (see Note 2(j)).

(in million of RUR)

2. Basis of preparation (continued)

(j) Restatement

The comparative information has been restated for the effect of adoption of new accounting policy is described below:

31 December 2010	*As previously reported, in thousand EUR*	*As previously reported, in million RUR*	*Change in accounting policy for PP&E, in million RUR (Note 2 (i))*	*Retrospective consolidation of entities acquired under common control, in million RUR*	*Other changes, in million RUR*	*As restated, in million RUR*
Assets						
Non-current assets						
Property, plant and equipment	1,525,997	61,591	993	56,139	(213)	118,510
Investment property	26,920	1,086	8	–	–	1,094
Intangible assets	35,916	1,438	–	1,625	213	3,276
Investments in associates and jointly controlled entities	1,126,008	45,415	(1,931)	(23,974)	–	19,510
Deferred tax assets	33,298	1,337	(527)	308	298	1,416
Available-for-sale financial assets		–	–	112	90	202
Other non-current assets	81,004	3,268	4	3,589	(90)	6,771
Total non-current assets	**2,829,143**	**114,135**	**(1,453)**	**37,799**	**298**	**150,779**
Current assets						
Inventories	68,051	2,749	–	3,085	–	5,834
Accounts receivable and prepayments	322,642	12,997	(9)	27,358	–	40,346
Income tax prepaid	1,756	70	47	290	–	407
Cash and cash equivalents	211,098	8,516	–	22,691	–	31,207
Other current assets	421,698	16,999	–	1,148	–	18,147
Total current assets	**1,025,245**	**41,331**	**38**	**54,572**	**–**	**95,941**
Total assets	**3,854,388**	**155,466**	**(1,415)**	**92,371**	**298**	**246,720**
Equity and liabilities						
Equity						
Share capital: registered shares	2,186,812	81,287	–	–	–	81,287
Treasury shares	(31,569)	(1,173)	–	–	–	(1,173)
Share premium	299,520	11,460	–	–	–	11,460
Hedge reserve	(30,492)	(1,230)	–	–	–	(1,230)
Fair value reserve	–	–	–	(10)	–	(10)
Property, plant and equipment revaluation reserve	433,730	17,494	(17,494)	–	–	–
Foreign currency translation reserve	(211,597)	138	(1,441)	(368)	–	(1,671)
Retained Earnings	(267,995)	(12,036)	18,201	21,136	–	27,301
Total equity attributable to shareholders of the Company	**2,378,409**	**95,940**	**(734)**	**20,758**	**–**	**115,964**
Non-controlling interest	16,410	687	(5)	21,929	–	22,611
Total equity	**2,394,819**	**96,627**	**(739)**	**42,687**	**–**	**138,575**
Non-current liabilities						
Long-term loans and borrowings	628,131	25,346	–	7,252	–	32,598
Deferred tax liabilities	76,973	3,095	(678)	3,467	298	6,182
Other non-current liabilities	19,739	797	–	1,576	–	2,373
Total non-current liabilities	**724,843**	**29,238**	**(678)**	**12,295**	**298**	**41,153**
Current liabilities						
Short-term loans and borrowings	46,872	1,894	–	4,042	–	5,936
Accounts payable and accrued liabilities	651,971	26,258	2	30,153	–	56,413
Other taxes payable	25,680	1,036	–	2,538	–	3,574
Income tax payable	10,203	413	–	656	–	1,069
Total current liabilities	**734,726**	**29,601**	**2**	**37,389**	**–**	**66,992**
Total liabilities	**1,459,569**	**58,839**	**(676)**	**49,684**	**298**	**108,145**
Total equity and liabilities	**3,854,388**	**155,466**	**(1,415)**	**92,371**	**298**	**246,720**

2. Basis of preparation (continued)

(j) Restatement (continued)

31 December 2010	*As previously reported, in thousand EUR*	*As previously reported, in million RUR*	*Change in accounting policy for PP&E, in million RUR (Note 2 (i))*	*Retrospective consolidation of entities acquired under common control, in million RUR*	*Other changes, in million RUR*	*As restated, in million RUR*
Six months ended 30 June 2010						
Revenue	**946,948**	**37,842**	**(19)**	**168,040**	**–**	**205,863**
Other operating income	32,357	1,144	16	146	–	1,306
Operating expenses	(883,224)	(35,255)	377	(160,572)	–	(195,450)
Operating profit / (loss)	**96,081**	**3,731**	**374**	**7,614**	**–**	**11,719**
Finance income	9,485	378	(84)	206	–	500
Finance expenses	(104,956)	(4,011)	90	(609)	–	(4,530)
Share of profit of associates and jointly controlled entities	21,145	845	(10)	(497)	–	338
Profit / (loss) before income tax	**21,755**	**943**	**370**	**6,714**	**–**	**8,027**
Total income tax benefit / (expense)	(26,421)	(1,045)	(110)	(1,655)	–	(2,810)
Profit / (loss) for the period	**(4,666)**	**(102)**	**260**	**5,059**	**–**	**5,217**

The effect of change in presentation currency from EUR into Russian Rules includes an increase in foreign currency translation reserve in the amount of RUR 8,668 million and a decrease of retained earnings in the amount of RUR 1,233 million as of 31 December 2010.

The effects of other changes represent reclassifications between property, plant and equipment and intangible assets in the amount of RUR 213 million; change in presentation of other non-current assets and available-for-sale financial assets in the amount of RUR 90 million; and presentation of deferred tax assets and liabilities amounted of RUR 298 million.

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated interim statements are described below. These accounting policies have been consistently applied, except for property, plant and equipment (Note 2(i)).

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 interim financial statements include the Group's share of the net profit/loss 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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

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

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

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

Business combinations

The acquisitions of entities under common control are accounted for using the predecessor accounting method. In accordance with this method, the consolidated financial statements of the Group is prepared to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, or, if occurred later, from the date when the entities are under common control. Under the predecessor accounting method the assets and liabilities of the combining entities are accounted for at the carrying values determined by the Group in its consolidated financial statements. Comparative information is presented as if the entities had always been consolidated.

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

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

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

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

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

Foreign currency

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

The effect of exchange rate changes on fair value of available-for-sale financial assets, when they are considered non-monetary, is included in the statement of 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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. 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.

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.

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

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

Depreciation of 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 from the time an asset is completed and ready for use. 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	13 – 100
Transmission facilities and equipment	3 – 50
Thermal networks	10 – 40
Power equipment	5 – 50
Other equipment and fixtures	2 – 50
Other structures	5 – 100
Other fixed assets	2 – 50

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

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.

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.

Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Prepayments

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

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

Value added tax on purchases and sales

Value added tax related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which Group entities operate. 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 debt is expensed for tax purposes.

Financial instruments

Financial instruments in the reporting Group include cash and cash equivalents, financial assets, accounts receivable, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item. Financial instruments in the reporting represent derivatives and non derivative financial instruments.

Derivative financial instruments

Derivative financial instruments are a means to transfer risk inherent in the basic instruments, between the parties under the contract, without transfer of the underlying instruments.

As part of trading activities the Group is also party to following derivative financial instruments:

a) interest rate swap;

b) currency swap;

c) currency forward contract: fforeign 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 those derivatives are presented as part of other comprehensive income to the extent of effective cash-flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges;

d) electricity forward contract: 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 cash-flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges;

e) shares option (call or put): 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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

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.

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 17, 18, 21, 22. 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.

Non derivative financial assets

The Group classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss,

b) available-for-sale financial assets,

c) loans and accounts receivable.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation which determines the method for measuring financial assets at subsequent balance sheet date: amortised cost or fair value.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

(b) 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.

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

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.

(c) Loans and 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.

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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

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 29.

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.

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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.

Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest 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 borrowings.

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.

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

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.

Restoration provision

The site restoration provision is calculated based on expected costs and the time required to restore the land occupied by ash dumps after expiry of their useful life to avoid their damaging effect on the environment. The change in provision is related to revised site restoration costs, unwinding of discounts and actual costs incurred.

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 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.

The Group present s electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Finance income

Finance income comprises interest income on funds invested, accretion income, 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.

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.

New accounting pronouncements and revised standards

The accounting policies adopted in the preparation of the consolidated interim financial statements for the six months ended 30 June 2011 are consistent with those followed in the preparation of the Group's annual financial statements for 2010 year, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

(a) The following IFRSs became effective for the Group's financial statements from 1 January 2011:

- *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 by: (1) simplifying the definition of a related party, particularly in relation to significant influence and joint control, clarifying its intended meaning and eliminating inconsistencies; and by (2) providing a partial exemption from the disclosure requirements for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring (a) the name of the government and the nature of its relationship with the reporting entity; (b) the nature and amount of individually significant transactions; (c) a qualitative or quantitative indication of the extent of other transactions that are collectively significant. The adoption of the amendment did not have any impact on the financial position or performance of 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 has had no effect on the financial position or performance of the Group and its consolidated interim financial statements.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IFRIC 14 (Amendment), The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (the amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively).*The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contribution to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation had no effect on the financial position or performance of the Group and its consolidated interim financial statements.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010).*The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies that the equity instrument issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished, Any gain or loss is recognized immediately in profit and loss. If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to modification of the liability outstanding, If so, the consideration paid is allocated between the two parts. The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability. The amendment had no effect on the financial position or performance of the Group and its consolidated interim financial statements.
- *Improvements to International Financial Reporting Standards (issued in 2010).* In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
- *IFRS 1 First-time Adoption of International Financial Reporting Standards* 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 Business combinations.* The measurement options available for non-controlling interest (NCI) have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the preset ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. Additionally, the amendments (i) 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) 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 Financial Instruments – Disclosures (applied retrospectively).* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collaterals held and improving disclosures by requiring qualitative information to put the quantitative information in context, 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 Presentation of Financial Statements.* The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements,
- *IAS 34 Interim Financial Statements.* The amendment requires additional disclosure for fair values and changes in classification of financial assets, as well as changes in contingent assets and liabilities in interim financial statements.
- *IAS 27 Consolidated and Separate Financial Statements (applied retrospectively).* The standard was amended by clarifying the transition rules for amendments to IAS 21 *The Effect of Changes of Foreign Exchange Rates*, 28 *Investments in Associates* and 31 *Interests in Joint Ventures* made by the revised IAS 27 (as amended in January 2008); and
- *IFRIC 13 Customer Loyalty Programmes.* The amendments states that in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program.

The amendments did not have any material effect on consolidated interim 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 million of RUR)

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:

- *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:
- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard and the impact on the Group.
- *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.
- *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.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *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.

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

The Group considers to adopt the respective amendments of IFRSs when they become effective.

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the CODM (see Note 2(h)) in deciding how to allocate resources and in assessing performance. The Management Board of the Parent has been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity.

Before the additional issue of shares made by the Parent during the first half 2011 the segment information was based on the internal management reporting. Since 2011 the Management Board decided to analyse the effectiveness of the operating segments based on IFRS financial reporting. For the purpose of comparability information for the six months ended 30 June 2010 and as at 31 December 2010 was provided on the same basis – using IFRS data of the operating segments.

The Management Board considers the Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) meaning that each operating 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 aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- **Supply in Russian Federation** (represented by JSC Mosenergosbyt, JSC PSK, JSC Tambov Energy Retailing Company, JSC Saratovenergo, JSC Altayenergosbyt, their management company JSC United Energy Retailing Company and JSC Industrial Energetics);
- **Generation in Russian Federation** represented by the following reporting sub-segments:
  - *Generation Parent* (represented by four generating divisions of the Parent company);
  - *OGK-1* (represented by Group OGK-1, including a 75%-joint-ventures NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES);
  - *TGK-11* (represented by Group TGK-11);
  - *WGC-3* (represented by Group WGC-3) since the end of March 2011.
- **Trading in Russian Federation and Europe** (represented by the trading activities of the Parent company, RAO Nordic Oy and UAB INTER RAO Lietuva);
- **Georgia** (represented by JSC Telasi, LLC Mtkvari Energy and JSC Khramesi I and Khramesi II (the latter two - since the beginning of April 2011);
- **Armenia** (represented by JSC Elektricheskiye seti Armenii, JSC RazTec and CJSC International Power Corporation (the latter one – till March 2011);
- **Moldova** (represented by CJSC Moldavskaya GRES);
- **Kazakhstan** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounting) and LLP Kazenergoresurs);
- **Engineering in Russian Federation** (since the second half 2010 represented by Quartz Group, LLC InterRAO-WorleyParsons and Interenergoeffect);
- Other.

(in million of RUR)

4. Segment information (continued)

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, share in profit/(loss) of associates and acquisition effects such as excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and other . The Group's definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity, capacity and heat allocated to the reporting segments.

As the CODM analyses leverage of the Group's subsidiaries and jointly-controlled entities on a regular basis loans and borrowings are allocated to the reporting segments, excluding inter-segment balances.

Jointly-controlled entities are reviewed by CODM in terms of the Group's share in their profit/(loss) and loan and borrowings.

"Unallocated and Eliminations" includes elimination of transactions between the reporting segments ("Eliminations") and management expenses, interest income and expense of the Parent company as well as liabilities on loans and borrowings, obtained by the Parent company or other subsidiaries, which can not be allocated to a specific reporting segment on a reasonable basis ("Unallocated").

(in million of RUR)

4. Segment information (continued)

Six months ended 30 June 2011

	Supply	*Generation*				*Trading*					*Engineering*			
		Russian Federation				*Russian Federation and Europe*								
	Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*WGC-3*		*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Russian Federation*	*Other*	*Unallocated and Eliminations*	*Total*
Total revenue	**169,340**	**9,361**	**28,336**	**10,973**	**8,804**	**30,548**	**4,026**	**2,882**	**2,592**	**373**	**–**	**1,936**	**(15,239)**	**253,932**
Revenue from external customers	169,219	7,263	18,825	10,828	7,912	28,460	4,026	2,669	2,592	373	–	1,765	–	253,932
Inter-segment revenue	121	2,098	9,511	145	892	2,088	–	213	–	–	–	171	(15,239)	–
OPEX, including:														
Purchased Electricity and capacity	(85,620)	–	(2,671)	(751)	(517)	(23,104)	(1,518)	(569)	(120)	(293)	–	(983)	15,073	(101,073)
Transmission fees	(67,540)	–	–	–	–	(3,337)	(155)	(148)	(46)	(36)	–	(189)	–	(71,451)
Fuel expenses	(4)	(4,639)	(16,324)	(5,114)	(4,732)	–	(408)	(734)	(1,656)	–	–	–	87	(33,524)
Share in profit/(loss) of Jointly-controlled entities	–	–	914	–	–	–	–	–	–	761	(122)	(38)	–	1,515
EBITDA	**9,448**	**3,175**	**5,275**	**1,293**	**863**	**3,474**	**899**	**600**	**381**	**793**	**(122)**	**(113)**	**(1,523)**	**24,443**
DD&A	(450)	(1,469)	(1,168)	(569)	(1,236)	(3)	(194)	(148)	(188)	(1)	–	(43)	–	(5,469)
Interest income	167	–	475	1	529	10	9	24	–	0	–	4,514	48	5,777
Interest expenses	(27)	(176)	(178)	(68)	–	(28)	(212)	(96)	(89)	–	–	(308)	(743)	(1,925)

(in million of RUR)

4. Segment information (continued)

Six months ended 30 June 2010 (restated)

	Supply	*Generation*			*Trading*							
		Russian Federation										
	Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Other*	*Unallocated and Eliminations*	*Total*
Total revenue	**142,067**	**6,442**	**22,187**	**10,610**	**21,683**	**3,750**	**2,438**	**2,857**	**243**	**735**	**(7,149)**	**205,863**
Revenue from external customers	141,884	5,916	17,813	10,489	19,757	3,750	2,413	2,863	243	735	–	205,863
Inter-segment revenue	183	526	4,374	121	1,926	–	25	(6)	–	–	(7,149)	–
OPEX, including:												
Purchased Electricity and capacity	(74,559)	–	(2,912)	(545)	(15,942)	(1,243)	(629)	(280)	(170)	(699)	7,100	(89,879)
Transmission fees	(54,887)	–	–	–	(2,365)	(95)	(140)	(25)	(30)	(112)	–	(57,654)
Fuel expenses	(3)	(2,999)	(11,867)	(4,872)	–	(272)	(327)	(1,709)	–	–	–	(22,049)
Share in profit/(loss) of Jointly-controlled entities	–	–	(174)	–	–	–	–	–	507	4	–	337
EBITDA	**6,458**	**2,010**	**2,465**	**1,581**	**2,579**	**990**	**691**	**441**	**534**	**411**	**(1,614)**	**16,546**
DD&A	(397)	(1,053)	(991)	(578)	(3)	(154)	(118)	(172)	(1)	(50)	3	(3,514)
Interest income	114	–	38	–	1	207	14	–	–	269	(207)	436
Interest expenses	(148)	(247)	(312)	(116)	(19)	(219)	(79)	(57)	–	(481)	(631)	(2,309)

(in million of RUR)

4. Segment information (continued)

Six months ended 30 June 2011

	Supply	*Generation*				*Trading*					*Engineering*			
		Russian Federation												
	Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*WGC-3*	*Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Russian Federation*	*Other*	*Unallocated and Eliminations*	*Total*
Loans and borrowings, including	**(733)**	**(837)**	**(5,874)**	**(3,867)**	**–**	**(611)**	**(3,455)**	**(1,465)**	**–**	**(430)**	**(68)**	**(91)**	**(32,950)**	**(50,381)**
Share in debts of Jointly-controlled entities	–	–	–	–	–	–	–	–	–	(430)	(68)	(91)	–	(589)

The year ended 31 December 2010 (restated)

	Supply	*Generation*			*Trading*					*Engineering*			
		Russian Federation											
	Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Russian Federation*	*Other*	*Unallocated and Eliminations*	*Total*
Loans and borrowings, including	**(1,433)**	**(939)**	**(7,222)**	**(2,638)**	**(607)**	**(3,869)**	**(704)**	**–**	**(470)**	**(69)**	**(102)**	**(21,116)**	**(39,169)**
Share in debts of Jointly-controlled entities	–	–	–	–	–	–	–	–	(470)	(69)	(96)	–	(635)

(in million of RUR)

4. Segment information (continued)

The Reconciliation between EBITDA of the reporting segments and Net profit for the reporting period per Consolidated Interim Statement of Comprehensive Income is represented below:

	For six months ended 30 June 2011	*For six months ended 30 June 2010 (restated)*
EBITDA per reportable segments	**24,443**	**16,546**
Depreciation and amortization of property, plant and equipment, investment property and intangible assets	(5,469)	(3,514)
Interest income	5,777	436
Interest expenses	(1,925)	(2,309)
Put&Call option	(6,095)	(2,093)
Foreign currency exchange loss, net	(263)	(68)
Other finance income	642	4
Provisions (charge)/release, including:	(3,615)	(976)
impairment of intangible assets	*(22)*	*–*
impairment of PP&E (charge)/release	*(80)*	*39*
release of provision for impairment of investment property	*–*	*230*
impairment of available for sale investments	*(833)*	*–*
other provisions (charge)/release	*(232)*	*431*
impairment of receivables	*(2,448)*	*(1,676)*
Gain from disposal of controlling interest	258	–
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	40,600	–
Share of profit in associates	15	1
Income tax benefit/(expense)	(4,561)	(2,810)
Profit for the period per Consolidated Interim Statement of Comprehensive Income	**49,807**	**5,217**

The Reconciliation between the Loans and borrowings for the reporting segments and Loans and borrowings for the reporting period per Consolidated Interim Statement of Financial Position is represented below:

	For six months ended 30 June 2011	*For the year ended 31 December 2010 (restated)*
Loans and borrowings for reportable segments	**(50,381)**	**(39,169)**
Less:		
Share in debts of Jointly-controlled entities	589	635
Loans and borrowings per Consolidated Interim Statement of Financial Position	**(49,792)**	**(38,534)**

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.

(in million of RUR)

4. Segment information (continued)

Information about geographical areas (continued)

	Six months ended 30 June 2011			*Six months ended 30 June 2010 (restated)*		
	***Revenue in the Group entity's jurisdiction*[1]**	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***	***Revenue in the Group entity's jurisdiction***	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***
Russian Federation	220,305	52	220,357	181,423	15	181,438
Finland (incl. NordPool)	9,781	2,614	12,395	6,072	4,490	10,562
Lithuania	5,328	–	5,328	3,064	–	3,064
Armenia	3,861	–	3,861	3,709	–	3,709
Georgia	2,669	256	2,925	2,413	98	2,511
Belarus	–	2,794	2,794	–	6	6
Moldova (incl. Transdniestria Republic)	139	2,143	2,282	220	2,377	2,597
Other	628	3,362	3,990	338	1,638	1,976
Latvia	*–*	*1,057*	*1,057*	*–*	*188*	*188*
Kazakhstan	*443*	*917*	*1,360*	*338*	*396*	*734*
China	*–*	*754*	*754*	*–*	*549*	*549*
Romania	*–*	*310*	*310*	*–*	*265*	*265*
Mongolia	*–*	*187*	*187*	*–*	*176*	*176*
Turkey	*185*	*–*	*185*	*–*	*–*	*–*
Other	*–*	*137*	*137*	*–*	*64*	*64*
Total	**242,711**	**11,221**	**253,932**	**197,239**	**8,624**	**205,863**

	***Total non-current assets based on location of assets*[2]**	
	As at 30 June 2011	***As at 31 December 2010 (restated)***
Russian Federation	221,005	125,280
Armenia	7,723	8,509
Georgia	7,222	3,573
Moldova (incl. Transdniestria Republic)	4,709	4,949
Other	142	79
Kazakhstan	*31*	*35*
Lithuania	*29*	*25*
Finland (incl. NordPool)	*12*	*9*
Turkey	*3*	*4*
Other	*67*	*6*
Total	**240,801**	**142,390**

[1] Revenues are attributable to countries on the basis of the customer's location.
[2] Total non-current assets based on location of assets excludes deferred tax assets and other non-current assets.

5. Acquisitions and disposals

During the 1st half 2011 the Group has made several acquisitions and disposals. Details are presented below:

Acquisition of JSC WGC-3

As a result of placing additional shares in the 1st half 2011, at the end of March 2011 JSC INTER RAO UES acquired 81.93% of the ordinary shares of JSC WGC-3 (acquired from other parties), an electricity and heat power generating company operating in several regions of the Russian Federation. The total consideration amounted RUR 52,108 million represented by the fair value of 1,361,626,945,728 ordinary shares issued by JSC INTER RAO UES using the stock quotations at the date of the transfer.

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 IFRS financial statements of the acquired entity for 1st quarter 2011 year.

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

	Fair values
Property, plant and equipment	75,629
Intangible assets	77
Other non-current assets	3,207
Inventories	2,633
Accounts receivable	7,784
Income tax prepaid	137
Cash and cash equivalents	13,441
Other current assets	24,877
Deferred tax liabilities	(7,894)
Other non-current liabilities	(771)
Accounts payable and accrued charges	(4,265)
Taxes payable	(2,106)
Fair value of net assets acquired	**112,749**
Less: Non-controlling interest (18.07% of Group WGC-3 net assets)	(20,374)
Fair value of acquired interest in net assets	**92,375**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(40,267)
Total consideration	**52,108**

Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to RUR 40,267 million was recognised directly in the consolidated interim statement of comprehensive income for six months ended 30 June 2011.

JSC WGC-3 contributed revenues of RUR 8,804 million and a net loss of RUR 441 million to the Group for the period from the date of acquisition to 30 June 2011. If the acquisition had occurred as at 1 January 2011, the estimated contribution to the Group revenue would have been RUR 21,265 million, and the estimated contribution to the result for the six months ended 30 June 2011 would have been a net profit of RUR 1,098 million.

Acquisition of JSC Khramesi I and JSC Khramesi II

On 12 April 2011 the Group acquired a 100.00% interest in JSC Khramesi I and JSC Khramesi II, an electricity power generating companies operating in Georgia. The total consideration paid by the Group was RUR 2,909 million (USD 104 million), including cash consideration paid in the amount of RUR 831 million (USD 32 million) net of cash acquired in the amount of RUR 141 million (USD 5 million) and deferred consideration in the amount of RUR 2,219 (USD 72 million) million.

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 IFRS financial statements of the acquired entities as at 31 March 2011.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Khramesi I and JSC Khramesi II (continued)

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

	Fair values
Property, plant and equipment	2,866
Intangible assets	9
Inventories	17
Accounts receivable	130
Income tax prepaid	2
Cash and cash equivalents	141
Other current assets	2
Non-current loans and borrowings	(409)
Deferred tax liabilities	(320)
Current loans and borrowings	(164)
Accounts payable and accrued charges	(40)
Taxes payable	(25)
Fair value of net assets acquired	**2,209**
Goodwill arising from the acquisition	700
Total consideration	**2,909**

Goodwill arising on the acquisition of JSC Khramesi I and JSC Khramesi II amounted to RUR 700 million. The key reason of the acquisition was the Group's further expansion of generating activities on the territory of Georgia. The amount of consideration comprises an advance paid of RUR 831 million on the date of acquisition and deferred consideration of RUR 2,078 million to be paid in the 4th quarter 2011 (see Note 21).

JSC Khramesi I and JSC Khramesi II contributed revenues of RUR 83 million and a net loss of RUR 111 million to the Group for the period from the date of acquisition to 30 June 2011. If the acquisition had occurred as at 1 January 2011, the estimated contribution to the Group revenue would have been RUR 183 million, and the estimated contribution to the result for six months ended 30 June 2011 would have been a net loss of RUR 39 million.

Acquisition of JSC OGK-1

In December 2010 net assets of JSC OGK-1 ware increased by RUR 23,302 million due to the additional issue of 20,809 million ordinary shares made by this company. On 21 December 2010 the Group acquired 18,998 million shares or a 29.03% interest in JSC OGK-1 for the total consideration of RUR 21,278 million.

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired additional 45.14% of the ordinary shares of JSC OGK-1 from entities under common control and 0.98% from other parties. The acquisition of 45.14% was accounted for using the pooling-of-interests method. The acquisition of 0.98% was accounted as acquisition of non-controlling interest in Additional issue of shares in the consolidated interim statement of changes in equity and amounted to RUR 634 million.

As at 30 June 2011 the Group has 75.15% (as at 31 December 2010: 74.17%) of the ordinary shares of JSC OGK-1.

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 RUR 1,685.5 million.

In February 2010 the Parent company purchased 2.79% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 127 million.

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%) at a price of RUR 0.0167 per a share. As a result of the mandatory offer 487,075 thousand or 0.09% of shares of JSC TGK-11 were purchased by the Group for a total consideration of RUR 9 million in June 2010 and 906,800 thousand or 0.18% of shares of JSC TGK-11 were purchased by the Group for a total consideration of RUR 16 million in August 2010.

In June 2010 the Group purchased 0.003 % of the ordinary shares of JSC TGK-11 for a total consideration of RUR 0.3 million.

In January – June 2011 the Group additionally purchased 0.40% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 33 million.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC TGK-11 (continued)

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 34.35% of the ordinary shares of JSC TGK-11 from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 67.71% (as at 31 December 2010: 67.31%) of the ordinary shares of JSC TGK-11.

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 (26.75% of total shares) of JSC Saint-Petersburg Sale Company (JSC PSC), an electricity trading company operating in Saint Petersburg, the Russian Federation. The purchased preference shares are non-voting.

The total consideration was RUR 1,472 million. The consideration included cash payment in the amount of RUR 200 million made in September 2010 and deferred consideration in the amount of RUR 1,272 million to be paid in April 2011 (see Note 16). Due to prolongation of the final settlement till the 3rd quarter 2011 according to the terms of the purchase agreement the Group has to pay additional fee in the amount of RUR 46 million.

Cash outflow on the acquisition in 2010 amounted to RUR 200 million. The deferred consideration in the amount of RUR 1,318 million (as at 31 December 2010: 1,272 million) was recognised as the short-term payable in the consolidated interim statement of financial position. The key reason of the acquisition was the Group's further expansion of trading activities on the wholesale electricity market.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 67.10% of the ordinary shares and 28.98 % of preference shares (61.52% of total shares) of JSC Saint-Petersburg Sale Company (JSC PSC) (acquired from entities under common control). This acquisition was accounted for using the pooling-of-interests method.

In May 2011 the Group additionally purchased 4.98% of the ordinary shares (4.25% of total shares) of JSC PSC for a total consideration of RUR 201 million.

As at 30 June 2011 the Group has 92.52% (as at 31 December 2010: 88.27%) of the total shares of JSC PSC.

Acquisition of JSC Mosenergosbyt

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 50.92% of the ordinary shares of JSC Mosenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

In 1st half 2011 one of the subsidiaries of JSC Mosenergosbyt additionally acquired 2.87% of the ordinary shares of JSC Korolevskaya network for a total consideration of RUR 10 million.

As at 30 June 2011 the Group has 50.92% (as at 31 December 2010: 50.92%) of the ordinary shares of JSC Mosenergosbyt.

Acquisition of JSC Altayenergosbyt

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100.00% of the ordinary shares of JSC Altayenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 100.00% (as at 31 December 2010: 100.00%) of the ordinary shares of JSC Altayenergosbyt.

Acquisition of JSC United Energy Retailing Company

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100.00% of the ordinary shares of JSC United Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 100.00% (as at 31 December 2010: 100.00%) of the ordinary shares of JSC United Energy Retailing Company.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Tambov Energy Retailing Company

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 67.87% of the ordinary shares or 59.38% of the total shares of JSC Tambov Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 59.38% (as at 31 December 2010: 59.38%) of the total shares of JSC Tambov Energy Retailing Company.

Acquisition of JSC Saratovenergo

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 74.46% of the ordinary shares or 56.97% of the total shares of JSC Saratovenergo from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 56.97% (as at 31 December 2010: 56.97%) of the total shares of JSC Saratovenergo.

Acquisition of JSC Hrazdan Energy Company (RazTES)

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100.00% of the ordinary shares of JSC Hrazdan Energy Company (RazTES) from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 30 June 2011 the Group has 100.00% (as at 31 December 2010: 100.00%) of the ordinary shares of JSC Hrazdan Energy Company (RazTES).

Disposal of controlling interest

On 7 February 2011, the Group disposed its 90% share in CJSC International Power Corporation. Cash inflow on the disposal amounted to RUR 126 million included the cash consideration of RUR 136 million less cash and cash equivalent balances of the entity at the date of disposal in the amount of RUR 10 million. The gain on disposal amounting to RUR 258 million was recognised in the consolidated interim statement of the comprehensive income.

Disposal of non-controlling interest in CJSC Electrolutch

On 24 December 2010 the shareholders meeting approved the additional issue of 2,000 ordinary shares of CJSC Electrolutch with nominal value of RUR 1 each. On 1 February 2011 the Board of Directors of the Company approved the issue cost of the additional ordinary shares in the amount of RUR 128,288 per share in favour of the third parties. Due to the additional issue of shares, held on February 2011 the share of the Parent Company in the share capital CJSC Electrolutch was diluted from 97.78% to 87.48% of ordinary shares, cash proceeds equalled to RUR 255 million.

During 2010 and 1st half 2011 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 consideration was RUR 51.1 million. Assets acquired and liabilities assumed of the entity were recognised at their respective fair values. The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	1
Accounts receivable	321
Income tax prepaid	10
Cash and cash equivalents	133
Accounts payable and accrued charges	(424)
Taxes payable	(16)
Fair value of net assets acquired	**25**
Less: Non-controlling interest (25% of JSC Industrial Energetics net assets)	(6)
Contingent dividends to be received for the 4th quarter 2010	75
Fair value of acquired interest in net assets	**94**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(43)
Total consideration	**51**

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Industrial Energetics (continued)

As at the date of acquisition the Group recognised short-term payable in the amount of RUR 51 million. The total consideration was paid by the Group in June 2011. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to RUR 43 million was recognised directly in the consolidated statement of comprehensive income for the year 2010.

JSC Industrial Energetics contributed revenues of RUR 1,590 million and a net profit of RUR 60 million 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 RUR 8,555 million, and the estimated contribution to the result for the year ended 31 December 2010 would have been a net profit of RUR 272 million.

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 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 group.

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

	Fair values
Fair value of entities' net assets	**365**
Fair value of acquired interest in net assets	**183**
Goodwill	129
Total purchase consideration	**312**

Cash outflow on the acquisition amounted to RUR 312 million. The goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to RUR 129 million was recognised in the carrying value of investment in associates and jointly controlled entities in the consolidated interim statement of financial position. The key reason of the acquisition was Group's expansion of engineering activities.

(in million of RUR)

6. Property, plant and equipment

	Land and buildings	*Constructions*	*Plant and equipment*	*Other*	*Constructions in progress*	*Total*
Cost						
Balance at 1 January 2010 (restated)	**33,289**	**32,735**	**72,614**	**4,402**	**25,922**	**168,962**
Additions	2	4	26	35	6,163	6,230
Disposals	(7)	(47)	(222)	(41)	(384)	(701)
Transfers	169	464	859	261	(1,753)	–
Translation difference	272	876	746	139	220	2,253
Balance at 30 June 2010 (restated)	**33,725**	**34,032**	**74,023**	**4,796**	**30,168**	**176,744**
Including PPE under finance lease	–	405	3,278	61	–	3,744
Balance at 1 January 2011 (restated)	**36,737**	**36,800**	**79,617**	**4,914**	**29,476**	**187,544**
Reclassification	(1,482)	(30)	1 141	371	–	–
Additions	85	459	657	7	23,997	25,205
Disposals	(13)	(35)	(71)	(690)	(165)	(974)
Transfers	1,394	1,559	12,275	195	(15,423)	–
Acquisition of controlling interest	20,303	13,687	18,613	458	25,433	78,494
Disposal of controlling interest	(98)	(483)	(388)	(30)	(14)	(1,013)
Translation difference	(650)	(1,780)	(1,624)	(225)	(215)	(4,494)
Balance at 30 June 2011	**56,276**	**50,177**	**110,220**	**5,000**	**63,089**	**284,762**
Including PPE under finance lease	–	320	3,278	610	–	4,208
Depreciation and impairment losses						
Balance at 1 January 2010 (restated)	**(11,066)**	**(17,275)**	**(32,561)**	**(2,309)**	**(5,101)**	**(68,312)**
Depreciation charge	(320)	(547)	(2,298)	(162)	–	(3,327)
Impairment loss charge/release	–	–	–	–	39	39
Disposals	8	40	183	11	–	242
Transfers	(17)	(4)	(21)	–	42	–
Translation difference	(210)	(802)	(605)	(114)	(4)	(1,735)
Balance at 30 June 2010 (restated)	**(11,605)**	**(18,588)**	**(35,302)**	**(2,574)**	**(5,024)**	**(73,093)**
Including PPE under finance lease	–	(132)	(1,262)	(47)	–	(1,441)
Balance at 1 January 2011 (restated)	**(11,355)**	**(18,376)**	**(35,224)**	**(2,670)**	**(1,409)**	**(69,034)**
Reclassification	1,482	(530)	(1,141)	189	–	–
Depreciation charge	(527)	(998)	(3,498)	(211)	–	(5,234)
Impairment loss charge/release	(71)	–	–	–	(9)	(80)
Disposals	7	27	54	682	9	779
Transfers	(1)	(1)	(8)	–	10	–
Disposal of controlling interest	104	419	334	32	14	903
Translation difference	384	1,391	1,136	166	4	3,081
Balance at 30 June 2011	**(9,977)**	**(18,068)**	**(38,347)**	**(1,812)**	**(1,381)**	**(69,585)**
Including PPE under finance lease	–	(128)	(1,384)	(31)	–	(1,543)
Net book value						
At 30 June 2010 (restated)	**22,120**	**15,444**	**38,721**	**2,222**	**25,144**	**103,651**
At 31 December 2010 (restated)	**25,382**	**18,424**	**44,393**	**2,244**	**28,067**	**118,510**
At 30 June 2011	**46,299**	**32,109**	**71,873**	**3,188**	**61,708**	**215,177**

The category Land and buildings includes land (see Note 2(g)) in the amount of RUR 490 million (31 December 2010: RUR 377 million).

(in million of RUR)

6. Property, plant and equipment (continued)

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to RUR 17,431 million as at 30 June 2011 (31 December 2010: RUR 6,089 million). Additions of constructions in progress include RUR 13,148 million related to the completion of second power generation block of Kaliningradskaya TEC-2 transferred from other current assets during six months ended 30 June 2011 (see details in Note 20 (v)).

Interest capitalized during six months ended 30 June 2011 amounted to RUR 96 million (six months ended 30 June 2010: RUR 258 million).

(a) Impairment

In management's opinion, the existing impairment reserve 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.

30 June 2010

As at 30 June 2010 the Group performed an assessment of the recoverable amount of property, plant and equipment. For these purposes the profitability tests of the Group property, plant and equipment performed as at 31 December 2009 were analyzed for changes in the key assumptions used. No indicators for the impairment accrual/release were revealed for the Group entities (within the cash generating units), except CJSC Elektrolutch.

CJSC Elektrolutch

Due to the growth in market rent price the profitability test was performed (see details in Note 7), as the result the RUR 39 million impairment was reversed.

30 June 2011

As at 30 June 2011 the Group performed an assessment of changes in the key assumptions comparing to 31 December 2010. No indicators for the impairment loss/reverse were revealed for the Group entities (within the cash generating units), except CJSC Elektrolutch and JSC TGK-11.

CJSC Elektrolutch

Due to the increase of capital expenditures to be done and therefore the postponement of the date of putting into use the rent area in one of the buildings the profitability test resulted impairment in the amount of RUR 71 million.

JSC TGK-11

Due to uncertainty in receiving future economic benefits by one of the incompleted building related to one of JSC TGK-11 transformer power station ("TPS") the impairment in the amount of RUR 9 million was recognized as at the reporting date.

(b) Security

Properties as at 30 June 2011 with a carrying amount of RUR 16 million (31 December 2010: RUR 4 million) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several of its loans.

7. Investment properties

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

At 1 January 2010 (restated)	**2,447**
Additions	34
Impairment loss recovery	230
Depreciation charge	(9)
At 30 June 2010 (restated)	**2,702**
At 1 January 2011 (restated)	**1,094**
Additions	2
Depreciation charge	(9)
At 30 June 2011	**1,087**

(in million of RUR)

7. Investment properties (continued)

The investment properties represent a complex of four 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 recognized as property, plant and equipment, the part which will be rented out is accounted as an investment property.

(a) Carrying value

Investment properties with a carrying value of RUR 1,066 million represent two buildings in Moscow fully completed and in use as at 30 June 2011 (as at 31 December 2010 RUR 1,074 million). Investment properties with a carrying value of RUR 21 million as at 30 June 2011 (as at 31 December 2010 RUR 20 million) represent two projects of construction of office and related facilities which, in accordance with the amendment made to IAS 40 *Investment Property* effective since 1 January 2009, were classified as investment property.

As at 30 June 2011 the 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

30 June 2011

As at 30 June 2011 the Group performed an assessment of the recoverable amount of the investment properties of CJSC Electrolutch, using the key assumptions which were used in the profitability test as of 31 December 2010, except for the following:

- The initial base rental fee is USD 690-1100 per square meter with subsequent growth of 5%-8% per annum;
- The discount rate used for construction period was assessed at the level of 15%; for the period of operations the discount rate of 11.5% was applied;
- The capitalization rate used for the calculation of the terminal value was 9%.

Based on the applied assumptions, the recoverable amount of each building as a separate cash generating unit exceeded respective carrying values. Accordingly, no impairment was recorded.

Total rental income received from the investment property for the six months ended 30 June 2011 was RUR 78 millions (for six month ended 30 June 2010: RUR 81 million). The future minimum lease payments receivable under non-cancellable operating leases as of 30 June 2011 are as follows:

	At 30 June 2011	***At 31 December 2010***
Not later than 1 year	118	151
Later than 1 year and not later than 5 years	274	301
Later than 5 years	58	72
Total operating lease payments receivable	**450**	**524**

As at 30 June 2011 two long-term and four short-term rental agreements were signed in respect of the investment properties. Although the contracts were concluded for periods up to 2018, the rental payments due under the agreement are set in accordance with additional agreements and only for periods up to one years.

As at 30 June 2011 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 payme
nts due under the contracts are set in accordance with additional agreements and only for periods up to one year.

(in million of RUR)

8. Intangible assets

	Goodwill	*Software*	*Other*	*Total*
Cost				
Balance at 1 January 2010 (restated)	**1,883**	**1,250**	**787**	**3,920**
Additions	–	134	241	375
Disposals	–	(119)	–	(119)
Translation difference	(177)	4	–	(173)
Balance at 30 June 2010 (restated)	**1,706**	**1,269**	**1,028**	**4,003**
Balance at 1 January 2011 (restated)	**1,857**	**1,470**	**1,084**	**4,411**
Reclassification	–	26	(26)	–
Acquisition of controlling interest	700	104	36	840
Additions	–	141	50	191
Disposals	–	(18)	(6)	(24)
Disposal of controlling interest	–	(1)	(2)	(3)
Translation difference	4	(11)	(2)	(9)
Balance at 30 June 2011	**2,561**	**1,711**	**1,134**	**5,406**
Amortisation and impairment				
Balance at 1 January 2010 (restated)	**(344)**	**(503)**	**(36)**	**(883)**
Amortisation charge	–	(116)	(62)	(178)
Disposals	–	110	–	110
Translation difference	34	(3)	–	31
Balance at 30 June 2010 (restated)	**(310)**	**(512)**	**(98)**	**(920)**
Balance at 1 January 2011 (restated)	**(324)**	**(650)**	**(161)**	**(1,135)**
Reclassification	–	(5)	5	–
Amortisation charge	–	(154)	(72)	(226)
Impairment losses	–	–	(22)	(22)
Acquisition of controlling interest	–	(50)	(4)	(54)
Disposals	–	5	5	10
Disposal of controlling interest	–	–	1	1
Translation difference	–	7	1	8
Balance at 30 June 2011	**(324)**	**(847)**	**(247)**	**(1,418)**
Net book value				
At 30 June 2010 (restated)	**1,396**	**757**	**930**	**3,083**
At 31 December 2010 (restated)	**1,533**	**820**	**923**	**3,276**
At 30 June 2011	**2,237**	**864**	**887**	**3,988**

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

The net book value of goodwill as at 30 June 2011 comprised goodwill which arose:

- on acquisition of UAB INTER RAO Lietuva in 2008 in the amount of RUR 1,112 million (as at 31 December 2010 and 30 June 2010 : RUR 1,111 million and RUR 1,052 million, respectively);
- resulted from acquisition of controlling interest in the amount of RUR 422 million (as at 31 December 2010 and 30 June 2010: RUR 422 million and RUR 344 million, respectively) (Note 5).

Additions in the amount RUR 700 million arose due to acquisitions of JSC Khramesi GES I and JSC Khramesi GES II in the April 2011, the amount of goodwill as at 30 June 2011 is RUR 703 million, included the translation of RUR 3 million from the date of acquisition till reporting date (Note 5).

As at 30 June 2011 Other intangible assets included Status of the guarantee supplier in the amount of RUR 611 million (with cost RUR 719 million and accumulated amortisation in the amount of RUR 108 million), recognised on the acquisition of a subsidiary by one of the entity acquired under common control (as at 31 December 2010: cost RUR 719 million, accumulated amortisation RUR 72 million).

(in million of RUR)

9. Investments in associates and jointly controlled entities

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

	Status	Country	Voting 30 June 2011	Voting 31 December 2010 (restated)
NVGRES Holding Limited	Jointly controlled entity	Russian Federation	75.00%	75.00%
CJSC Nizhnevartovskaya GRES	Jointly controlled entity	Russian Federation	75.00%	75.00%
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.00%	50.00%
Quartz Group	Jointly controlled entity	Russian Federation	50.10%	50.10%
CJSC Industrial Power Company	Jointly controlled entity	Russian Federation	50.00%	50.00%
JSC Kambarata HPP-1	Jointly controlled entity	Kyrgyz Republic	50.00%	50.00%
LLC Interenergoeffect	Jointly controlled entity	Russian Federation	50.00%	50.00%
LLC Power Efficiency Centre INTER RAO UES	Jointly controlled entity	Russian Federation	50.01%	50.00%
LLC Inter RAO-Worley Parsons	Jointly controlled entity	Russian Federation	51.00%	51.00%
ENERGOCONNECT SOOO	Jointly controlled entity	Belorussia	50.00%	–
UAB Alproka	Associate	Lithuania	49.99%	49.99%
RUS Gas Turbines Holding B.V.	Associate	Netherlands	25.00%	25.00%
JSC AKKUYU NPP	Associate	Turkey	33.33%	33.33%

	NVGRES Holding Limited	JSC Stantsiya Ekibastuzskaya GRES-2	Quartz Group	JSC AKKUYU NPP	Other	Total
Carrying value at 1 January 2010 (restated)	**13,702**	**2,966**	**–**	**–**	**38**	**16,706**
Additions	–	–	–	–	4	**4**
Share of profit after tax	(174)	507	–	–	5	**338**
Dividends received from associate and jointly controlled entities	–	–	–	–	(12)	**(12)**
Translation difference	–	129	–	–	(1)	**128**
Carrying value 30 June 2010 (restated)	**13,528**	**3,602**			**34**	**17,164**
Carrying value at 1 January 2011 (restated)	**13,958**	**4,004**	**471**	**980**	**97**	**19,510**
Share of profit/(loss) after tax	914	761	(109)	(8)	(28)	**1,530**
Dividends received from associate and jointly controlled entities	–	–	(54)	–	(18)	**(72)**
Translation difference	–	(302)	–	(121)	4	**(419)**
Carrying value at 30 June 2011	**14,872**	**4,463**	**308**	**851**	**55**	**20,549**

NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES

The Group holds a 75% interest in NVGRES Holding Limited, including its wholly-owned subsidiary CJSC Nizhnevartovskaya GRES consolidated by equity method, per the terms of the Shareholders Agreement between the Group and TNK-BP (Russian oil and gas company), control is jointly exercised.

The following are summarised financial information in respect of NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES:

	30 June 2011	31 December 2010 (restated)
Non-current assets	8,609	8,325
Current assets	12,483	11,488
Non-current liabilities	(504)	(495)
Current liabilities	(759)	(708)

	Six months ended 30 June 2011	Six months ended 30 June 2010 (restated)
Revenue	6,467	5,620
Profit for the period, net of tax	1,219	(232)

(in million of RUR)

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

JSC Stantsiya Ekibastuzskaya GRES-2

The Group holds a 50% interest in a jointly controlled entity – JSC Stantsiya Ekibastuzskaya GRES-2 accounted for under the equity method. The Group exercises joint control over JSC Stantsiya Ekibastuzskaya GRES-2 with AO “Samruk-Energo”, which is controlled by the Government of the Republic of Kazakhstan.

The following are summarized financial information in respect of JSC Stantsiya Ekibastuzskaya GRES-2:

	30 June 2011	*31 December 2010 (restated)*
Non-current assets	8,935	9,419
Current assets	2,497	944
Non-current liabilities	(1,749)	(1,890)
Current liabilities	(757)	(465)

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue	3,347	2,733
Profit for the period, net of tax	1,522	1,014

Quartz Group

On 4 July 2010 the Group acquired a 50.01% interest in Quartz Group (see Note 5).

The following are summarised financial information in respect of Quarts Group:

	30 June 2011	*31 December 2010 (restated)*
Non-current assets	11,705	13,150
Current assets	7,892	2,894
Non-current liabilities	(14,011)	(11,179)
Current liabilities	(5,229)	(4,182)

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue	1,675	–
Loss for the period, net of tax	(218)	–

JSC AKKUYU NPP

On December 2010 the Group has established in Turkey together with JSC Rosenergoatom Concern and CJSC Atomstroyexport a new associate entity, JSC AKKUYU NPP. 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 the associate entity JSC AKKUYU NPP:

	30 June 2011	*31 December 2010 (restated)*
Non-current assets	14	–
Current assets	2,551	2,940
Current liabilities	(12)	–

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Loss for the period , net of tax	(24)	–

(in million of RUR)

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

Other

As at 30 June 2011 the Group owns shares in several associates and jointly controlled entities.

The following are summarised financial information in respect of these entities:

	30 June 2011	*31 December 2010 (restated)*
Non-current assets	46	11
Current assets	503	354
Current liabilities	(479)	(195)

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue	151	–
Loss/ (profit) for the period, net of tax	(102)	8

10. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Differences between IFRS and relevant tax bases 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.

Deferred tax assets and liabilities are attributable to the following:

	Deferred Tax Assets		*Deferred Tax Liabilities*	
	30 June 2011	*31 December 2010 (restated)*	*30 June 2011*	*31 December 2010 (restated)*
Property, plant and equipment	48	198	(13,936)	(4,865)
Investment property	–	–	(238)	(246)
Investment in associate and jointly controlled entity	24	7	(1,442)	(1,331)
Trade and other receivables	635	573	–	–
Other non-current assets	–	–	–	(508)
Tax loss carry-forwards	366	162	–	–
Other items	931	1,311	(1,013)	(67)
Tax assets / (liabilities)	2,004	2,251	(16,629)	(7,017)
Set off of tax	(1,283)	(835)	1,283	835
	721	**1,416**	**(15,346)**	**(6,182)**

(b) Unrecognised deferred tax assets

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

	30 June 2011	*31 December 2010 (restated)*
Available-for-sale financial assets	29,711	–
Assets classified as held-for-sale	15,683	–
Other	4,412	1,659

Deductible temporary differences mainly relate to the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 18), impairment of property plant and equipment and acquisition of assets available or held for sale (mainly relates to JSC Volga TGC, JSC Bashkirenergo, JSC OGK-6, JSC TGC-6 and JSC Irkutskenergo). 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. Unrecognized temporary differences related to property plant and equipment can be realized within next 8 years.

(in million of RUR)

10. Deferred tax assets and liabilities (continued)

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

Deferred tax assets:

	1 January 2010 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*Recognised in OCI (Reserves)*	*30 June 2010 (restated)*
Property, plant and equipment	2,041	(149)	11	–	1,903
Trade and other receivables	599	(68)	(5)	–	526
Other items	253	55	(1)	22	329
Tax loss carry-forwards	36	(46)	(1)	–	(11)
	2,929	**(208)**	**4**	**22**	**2,747**

	1 January 2011 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*Recognised in OCI (Reserves)*	*30 June 2011*
Property, plant and equipment	80	(123)	1	–	(42)
Trade and other receivables	575	(2)	(3)	–	570
Other items	721	(118)	7	(461)	149
Tax loss carry-forwards	40	4	–	–	44
	1,416	**(239)**	**5**	**(461)**	**721**

Deferred tax liabilities:

	1 January 2010 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*30 June 2010 (restated)*
Property, plant and equipment	(4,254)	(317)	–	(4,571)
Investment property	(302)	(29)	–	(331)
Other non-current assets (Call &Put)	–	(375)	–	(375)
Investments in associates and jointly controlled entity	(1,057)	(59)	(26)	(1,142)
Other items	644	(306)	–	338
	(4,969)	**(1,086)**	**(26)**	**(6,081)**

	1 January 2011 (restated)	*Acquisition of controlling interest*	*Recognised in profit and loss*	*Recognised in OCI (FCT and other reserves)*	*30 June 2011*
Property, plant and equipment	(4,748)	(8,578)	(527)	7	(13,846)
Investment property	(101)	–	7	–	(94)
Other non-current assets (Call &Put)	(508)	–	508	–	–
Investments in associates and jointly controlled entity	(1,331)	–	(171)	60	(1,442)
Other items	506	364	(778)	(56)	36
	(6,182)	**(8,214)**	**(961)**	**11**	**(15,346)**

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

A deferred tax asset in the amount of RUR (461) million was recognised in other comprehensive income in relation to the hedge reserves decrease of RAO Nordic Oy and the Parent company for six months ended 30 June 2011. A deferred tax liability in the amount of RUR (49) million was recognised in other items as other comprehensive income in relation to the hedge reserve recognised in RAO Nordic Oy for six months ended 30 June 2011. Other deferred tax liabilities recognised in other comprehensive income relate to foreign currency translation reserve.

For six months ended 30 June 2010 a deferred tax asset in the amount of RUR 22 million was recognised in other comprehensive income in relation to the hedge reserve recognised in the Parent company.

A deferred tax liability in the amount of RUR 8,214 million was recognised through profit and loss in relation to property plant and equipment in JSC Khramesi GES I, JSC Khramesi GES II and JSC WGC-3. Other items in deferred tax liability recognised through profit and loss mainly relates to discounting effect on JSC Mejregionenergostroy (see Note 20).

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 30 June 2011 and 31 December 2010, temporary tax differences amounted to RUR 97,925 million, RUR 29,999 million.

(in million of RUR)

11. Available-for-sale financial assets

As at 30 June 2011 available-for sale financial assets in the total amount of RUR 67,782 million (as at 31 December 2010: RUR 202 million) included Investments in quoted shares in the total amount of RUR 66,932 million (as at 31 December 2010: RUR 76 million) and Investment in unquoted shares in the total amount of RUR 850 million (as at 31 December 2010: RUR 126 million).

Investments in quoted shares

Carrying value of investments in quoted shares as at 30 June 2011 reflects impairment of investment in Plug Power in the amount of RUR 675 million recognised through profit and loss of consolidated interim statement of comprehensive income for six months ended 30 June 2011 (for six months ended 30 June 2010: nil) (Note 26).

For six months ended 30 June 2011 the amount of RUR 9,755 million was recognised as revaluation of the available-for sale financial assets through other comprehensive income in the consolidated interim statement of comprehensive income (for six months ended 30 June 2010: RUR 18 million) (Note 18).

	30 June 2011		*31 December 2010*	
	% Share capital	***Fair value***	***% Share capital***	***Fair value***
JSC Volga TGC	39.39%	22,462	–	–
JSC Bashkirenergo	26.65%	12,525	–	–
JSC RusHydro	1.67%	6,398	0.02%	74
JSC OGK-4	3.26%	5,156	–	–
JSC Mosenergo	5.05%	5,018	–	–
JSC OGK-6	13.20%	4,648	–	–
JSC TGC-6	26.09%	4,070	–	–
JSC FGC UES	0.37%	1,717	–	–
JSC OGK-2	3.05%	1,295	–	–
JSC TGK-1	1.97%	1,096	–	–
JSC RAO Energy System of East	4.29%	555	–	–
JSC TGK-9	1.71%	475	–	–
JSC Kuzbassenergo	1.97%	364	–	–
JSC Quadra	2.25%	338	–	–
JSC Yenisei TGC (TGC-13)	2.16%	329	–	–
Plug Power	19.70%	278	–	–
JSC TGK-2	1.21%	113	–	–
JSC TGK-14	0.60%	32	–	–
JSC IDGC of Centre	0.07%	28	–	–
JSC Novosibirskenergo	0.16%	23	–	–
JSC Irkutskenergo	0.01%	7	–	–
JSC Yaroslavl Power Sale Company	0.85%	2	–	–
Other	–	3	–	2
Total	**–**	**66,932**	**–**	**76**

The Group does not exercise significant influence on JSC Volga TGC, JSC Bashkirenergo and JSC TGC-6 with respective ownership interest of 39.39%, 26.65% and 26.09%, respectively. Accordingly, the investments were accounted for as available-for-sale financial assets.

Investments in unquoted shares

Fair value of investments in unquoted shares as at 30 June 2011 included impairment of investments in JSC TGK-11 Holding and JSC Sangtudinskaya GES-1 in the total amount of RUR 848 million (as at 31 December 2010: RUR 690 million). Impairment of available-for sale investments for six months ended 30 June 2011 in the total amount of RUR 158 million was recognised through profit and loss of consolidated interim statement of comprehensive income (for six months ended 30 June 2010: nil) (Note 26) .

	30 June 2011		*31 December 2010*	
	% Share capital	***Fair value***	***% Share capital***	***Fair value***
JSC INTER RAO LED-Systems	35.17%	600	–	–
JSC Sangtudinskaya GES-1	16.66%	161	2.18%	88
JSC TGK-11 Holding	34.34%	52	15.07%	37
Other	–	37	–	1
Total	**–**	**850**	**–**	**126**

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 35.17% interest in JSC INTER RAO LED-Systems which is a 100% shareholder of CJSC Svetlana-Optoelectronics. The total consideration paid by the Group was RUR 600 million.

(in million of RUR)

12. Other non-current assets

		30 June 2011	31 December 2010 (restated)
Financial non-current assets		**4,714**	**5,889**
Non-current loans issued (including outstanding interest)		10	58
	Less impairment provision	*(9)*	*(10)*
Non-current loans issued (including outstanding interest) – net		**1**	**48**
Non-current trade receivables		254	193
	Less impairment provision	*(69)*	*(65)*
Non-current trade receivables – net		**185**	**128**
Other non-current receivables		922	3,579
	Less impairment provision	*(394)*	*(408)*
Other non-current receivables – net		**528**	**3,171**
Long-term derivative financial instruments - assets		–	2,541
Long-term bank deposits		4,000	1
		4,000	**2,542**
Non-financial non-current assets		**2,593**	**882**
VAT recoverable		2,217	487
Other non-current assets		376	395
		7,307	**6,771**

As at 31 December 2010 Other non-current receivables of JSC OGK-1 included long-term bills of exchange from CJSC VTB-Leasing in the amount of RUR 2,715 million. During 2011 these bills of exchange has been sold to a third party with loss of RUR 48 million.

As at 31 December 2010 long-term derivative financial instruments in the amount of RUR 2,541 million represented the fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010. At 30 June 2011 the call and put option was included in Long-term derivative financial instruments – liabilities according to its fair value (see Note 22).

As at 30 June 2011 Long-term bank deposits are represented by deposit placed in 2011 with JSC Credit Bank of Moscow by JSC OGK-1.

As at 30 June 2011 Value added tax recoverable included RUR 1,995 million represents VAT on advance issued on energy unit construction at Kharanorskaya GRES, Cherepetskaya GRES, Gusionoozerskaya GRES and Yznouralskaya GRES by JSC WGC-3 to contractors.

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 2011 (restated)	**(65)**	**(10)**	**(408)**	**(483)**
Provision for receivables impairment	(11)	–	(40)	(51)
Release of provision	5	–	19	24
Accrual of discount effect	–	–	(46)	(46)
Reclassification of short-term portion	–	–	(7)	(7)
Acquisition of controlling interest	–	–	88	88
Translation difference	2	1	–	3
At 30 June 2011	**(69)**	**(9)**	**(394)**	**(472)**

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2010 (restated)	**(146)**	**(3)**	**(325)**	**(474)**
Provision for receivables impairment	–	–	(135)	(135)
Provision for loans issued impairment	–	(4)	–	(4)
Release of provision	16	–	50	66
Reclassification of short-term portion	(1)	–	(1)	(2)
Translation difference	2	–	–	2
At 30 June 2010 (restated)	**(129)**	**(7)**	**(411)**	**(547)**

(in million of RUR)

13. Inventories

	30 June 2011	31 December 2010 (restated)
Fuel production stocks	5,021	2,503
Spare parts	2,227	1,658
Materials and consumables	627	656
Other	1,740	1,017
	9,615	**5,834**

The note provides information about the inventory balances net of provision for impairment equalled as at 30 June 2011 RUR 143 million (as at 31 December 2010: RUR 102 million).

As at 30 June 2011 the Group has a technological inventory in the amount RUR 1,647 million, mostly represented by fuel and spare parts (as at 31 December 2010: RUR 1,203 million).

14. Accounts receivable and prepayments

		30 June 2011	31 December 2010 (restated)
Financial assets:		***31,890***	***34,357***
Trade receivables		39,018	36,882
	Less impairment provision	(12,828)	(9,715)
Trade receivables - net		**26,190**	**27,167**
Other receivables		5,752	7,686
	Less impairment provision	(1,045)	(688)
Other receivables - net		**4,707**	**6,998**
Short-term loans issued (including outstanding interest)		185	194
	Less impairment provision	(2)	(2)
Short-term loans issued (including outstanding interest)		**183**	**192**
Dividends receivable		810	–
Non-financial assets:		***10,395***	***5,989***
Advances to suppliers and prepayments		2,125	1,627
	Less impairment provision	(160)	(160)
Advances to suppliers and prepayments - net		**1,965**	**1,467**
Short-term taxes recoverable		5,737	1,833
Taxes prepaid		2,693	2,689
		42,285	**40,346**
Impairment provision, total		**(14,035)**	**(10,565)**

As at 30 June 2011 short-term taxes recoverable included in input VAT on construction of Kaliningradskaya TEC-2 in the total amount of RUR 2,361 million (31 December 2010: nil).

As at 30 June 2011 included in the taxes prepaid is VAT in the total amount of RUR 2,687 million (31 December 2010: RUR 2,683 million).

(in million of RUR)

14. Accounts receivable and prepayments (continued)

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 2011 (restated)	**(9,715)**	**(160)**	**(2)**	**(688)**	**(10,565)**
Provision for receivables impairment	(4,290)	(40)	–	(285)	**(4,615)**
Release of provision	1,787	25	–	423	**2,235**
Accrual of discount effect	–	–	–	(1)	**(1)**
Unwinding of discount	–	–	–	6	**6**
Receivables written off during the year as uncollectible (provided as at year beginning)	33	–	–	67	**100**
Reclassification	–	14	–	(14)	**–**
Reclassification of long-term portion	–	–	–	7	**7**
Foreign exchange gain	19	–	–	–	**19**
Acquisition of controlling interest	(747)	–	–	(570)	**(1,317)**
Disposal of controlling interest	–	–	–	1	**1**
Translation difference	85	1	–	9	**95**
At 30 June 2011	**(12,828)**	**(160)**	**(2)**	**(1,045)**	**(14,035)**

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 1 January 2010 (restated)	**(8,031)**	**(54)**	**–**	**(586)**	**(8,671)**
Provision for receivables impairment	(2,914)	(14)	–	(154)	**(3,082)**
Provision for loans issued impairment	–	–	(8)	–	**(8)**
Release of provision	1,419	–	–	56	**1,475**
Receivables written off during the year as uncollectible (provided as at year beginning)	10	–	–	96	**106**
Reclassification of long-term portion	1	–	–	1	**2**
Foreign exchange gain/(loss)	(2)	–	–	1	**(1)**
Translation difference	76	–	–	6	**82**
At 30 June 2010 (restated)	**(9,441)**	**(68)**	**(8)**	**(580)**	**(10,097)**

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

At 30 June 2011	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	14,527	183	4,048	805	**19,563**
Past due but not impaired	5,861	–	232	5	**6,098**
Past due and impaired	18,630	2	1,472	–	**20,104**
Total	**39,018**	**185**	**5,752**	**810**	**45,765**

At 31 December 2010 (restated)	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	19,699	28	6,823	–	**26,550**
Past due but not impaired	3,166	164	12	–	**3,342**
Past due and impaired	14,017	2	851	–	**14,870**
Total	**36,882**	**194**	**7,686**	**–**	**44,762**

(in million of RUR)

14. Accounts receivable and prepayments (continued)

As at 30 June 2011 accounts receivable of RUR 6,098 million (31 December 2010: RUR 3,342 million) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default. The ageing analysis of these receivables is as follows:

Past due but not impaired	***30 June 2011***	***31 December 2010 (restated)***
Up to 3 month	3,424	2,219
3 to 6 month	963	503
6 to 12 month	827	492
Over 12 months	884	128
Total	**6,098**	**3,342**

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

Past due and impaired	***30 June 2011***	***31 December 2010 (restated)***
Up to 3 month	4,549	2,444
3 to 6 month	2,861	2,582
6 to 12 month	3,030	2,505
Over 12 months	9,664	7,339
Total	**20,104**	**14,870**

The Group does not hold any collateral as security.

15. Cash and cash equivalents

	30 June 2011	***31 December 2010 (restated)***
Cash in bank and at hand, national currency	34,131	18,128
Cash in bank and at hand, foreign currency	3,155	2,584
Bank deposits with maturity of three months or less	14,104	10,495
	51,390	**31,207**

(in million of RUR)

15. Cash and cash equivalents (continued)

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

Financial institution	*Credit rating*	*Rating agency*	*30 June 2011*	*31 December 2010 (restated)*
Peresvet Bank CJSC	Unrated	–	10,419	12,074
Credit bank of Moscow JSC	B+/Stable/B	Fitch	8,521	4,590
Sberbank JSC	BBB/Stable/F3	Fitch	8,414	2,510
ROSSIYA JSC	B/Stable/B	Standard&Poor's	8,183	264
Gazprombank JSC	BB+/Stable/B	Standard&Poor's	3,141	3,820
Transcreditbank JSC	Ba1/Stable	Moody's	2,380	–
Bank Narodniy credit JSC	A2	National rating agency	1,791	874
Transcapitalbank CJSC	B1/Stable/B1	Moody's	1,174	–
Russ-Bank JSC	B2/Stable/B2	Moody's	1,024	44
HSBC Bank RR	AA/Stable/F1+	Fitch	701	2
SWEDBANK AB	A/Stable/F1	Fitch	658	680
Pervij respublikanskij bank OJSC	B3/Stable/E+	Moody's	611	–
Alfa-Bank JSC	BB+/Stable/B	Fitch	601	856
ING Bank NV	C+/Stable/Aa3	Moody's	440	239
National mortgage bank JSC	Unrated	–	340	–
Sobinbank JSC	E+/Stable/B3	Moody's	188	1,505
Ameriabank CJSC	Unrated	–	182	143
NOMOS-BANK JSC	BB/Stable/B	Fitch	176	147
Vnesheconombank SC	BBB/Stable/F3	Fitch	127	12
VTB Bank JSC	BBB/Stable/F3	Fitch	114	461
Bank of Georgia JSC	B+/Stable/B	Fitch	101	311
Intrastbank	B++/Stable	AK&M	100	–
VTB Bank Georgia JSC	BB-/Positive/B	Fitch	96	–
AKB Avangard JSC	B2/Stable/E+	Moody's	85	–
Kazinvestbank JSC	B-/Negative	Standard&Poor's	77	59
SEB Bank	BBB+/Positive/F2	Fitch	73	20
Danske Bank A/S	BBB+/Positive/F2	Fitch	65	64
Standard Bank JSC	B3/Stable/Baa3	Moody's	59	147
AKB RosEuroBank JSC	B+/Stable/B	Fitch	52	–
Other			1,497	2,385
			51,390	**31,207**

16. Assets classified as held-for-sale

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 40.00% of the ordinary shares of JSC Irkutskenergo (see Note 1). In accordance with the decision of the Russian Government the investment in JSC Irkutskenergo is to be contributed in the course of additional share issue of JSC RusHydro in the 4th quarter 2011. On the date of acquisition (25 March 2011) the Group has classified the investment as assets held-for-sale in the amount of RUR 38,048 million being the cost of consideration given.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 3.04% of the ordinary shares of JSC Fortum (see Note 1). The Group plans to dispose 3.04% of the ordinary shares of JSC Fortum in the 4th quarter 2011. At the date of acquisition the investment in JSC Fortum was recognised in the amount of RUR 1,210 million (as at 30 June 2011: RUR 1,085 million).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.43% of the ordinary shares of JSC Enel OGK-5, 26.26% of ordinary shares of JSC Kuban Generation Company and 31.27% of total shares of JSC Tomskenergosbyt (see Note 1). Management have plans to sell these investments during twelve months from the date of acquisition. The investments were recognised as assets held-for-sale in the amount of RUR 19,260 million, RUR 41 million and RUR 729 million, respectively.

(in million of RUR)

16. Assets classified as held-for-sale (continued)

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.26% of ordinary shares of JSC Kubanenergosbyt (see Note 1). Management have plans to sell this investment during twelve months from the date of acquisition. At the date of acquisition the investment was recognised as assets held-for-sale in the amount of RUR 635 million (as at 30 June 2011: RUR 740 million).

The net gain on acquisition of available-for-sale financial assets and assets classified as held-for-sale in the amount of RUR 333 million was recognised within the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net in the consolidated interim statement of comprehensive income.

17. Other current assets

	30 June 2011	*31 December 2010 (restated)*
Restricted cash	311	862
Deposits with maturity of 3-12 months	32,446	1,275
Short-term derivative financial instruments	549	183
Other	219	15,827
	33,525	**18,147**

As at 30 June 2011 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 RUR 151 million (31 December 2010: RUR 693 million).

As at 30 June 2011 restricted cash balances include cash deposited in VTB Bank Armenia (collateral security in favour of EBRD on the loan agreement) the amount of RUR 156 million (31 December 2010: RUR 168 million).

As at 31 December 2010 other current assets included RUR 15,626 million (relating to construction of the second power generating block at Kaliningradskaya TEC-2). As at 30 June 2011 these other current assets were reclassified to Property, plant and equipment (see Note 6).

Bank deposits with original maturity of 3-12 months at 30 June 2011

Bank	*Interest rate*	*Amount of deposits*
Svyaz-bank JSC	4.50% - 7.60%	14,487
Rosselkhozbank JSC	4.30% - 6.90%	14,415
VTB Bank JSC	3.35% - 8.50%	3,234
Bank Narodniy credit JSC	10.50%	300
Transcapitalbank CJSC	5.60%	10
		32,446

Bank deposits with original maturity of 3-12 months at 31 December 2010 (restated)

Bank	*Interest rate*	*Amount of deposits*
Intrastbank	8.60%	400
Bank Narodniy credit JSC	10.50%	300
Guta Bank JSC	8.00%	300
Russ-Bank JSC	4.50%-9.25%	192
Ardshininvestbank CJSC	10.00%	13
Transcapitalbank CJSC	5.60%	11
Other		59
		1,275

As at 30 June 2011 deposits with maturity of 3-12 months included RUR 32,136 million in placed by WGC-3 JCS in Svyaz-bank JSC, Rosselkhozbank JSC and VTB Bank JSC are retained for future settlements of construction payables (see Note 31).

(in million of RUR)

18. Equity

Share capital

	30 June 2011	*31 December 2010*
Number of ordinary shares issued and fully paid (in units)	9,716,000,000,000	2,893,027,370,229
Par value (in Russian roubles ("RR")	0.02809767	0.02809767
Share capital (in million Russian roubles)	272,997	81,287

Change in Retained earnings as a result of acquisition of controlling interests. As described in the paragraph "Predecessor accounting" (see Note 2) the Company accounted for acquisitions of controlling interests from entities under common control using pooling-of-interests method (Note 1, 2). As a result, the Group consolidated the entities acquired and represented the interim financial statements from the earliest period presented (1 January 2010) as these entities have been always consolidated.

The difference in the amount of RUR 28,786 million between net assets acquired and non-controlling interest was recognised in retained earning as at 1 January 2010. The table below represents change in retained earnings for the periods after 1 January 2010.

Balance at 1 January 2010 (restated)	**28,786**
Profit of entities acquired for six months, ended 30 June 2010	2,951
Dividends to shareholders	(56)
Foreign currency translation reserve related to JSC RazTES	29
Change in Group structure	1
Balance at 30 June 2010 (restated)	**31,711**
Balance at 1 January 2010 (restated)	**28,786**
Profit of entities acquired for the year	5,756
Issue of shares by one of entities merged (JSC OGK-1)	2,318
Dividends to shareholders	(2,112)
Change in Group structure	50
Foreign currency translation reserve related to JSC RazTES	24
Balance at 31 December 2010 (restated)	**34,822**
Balance at 1 January 2011 (restated)	**34,822**
Profit of entities acquired for six months, ended 30 June 2011	3,529
Foreign currency translation reserve related to JSC RazTES	(48)
Change in Group structure	(2)
Nominal value of shares issued and transferred by JSC INTER RAO UES for the acquisition of controlling interests from entities under common control	(24,511)
Balance at 30 June 2011	**13,790**

Movements in outstanding shares (in thousand of units)

	Issued shares		*Treasury shares*		*Total*	
	thousand units	*million RUR*	*thousand units*	*million RUR*	*thousand units*	*million RUR*
1 January 2010	**2,274,113,845**	**63,897**	**(98,064,455)**	**(2,755)**	**2,176,049,390**	**61,142**
Additional issue of ordinary shares	618,913,525	17,390	–	–	**618,913,525**	**17,390**
Sale of treasury shares	–	–	11,984,361	337	**11,984,361**	**337**
Redemption of treasury shares under the share option plan	–	–	44,316,120	1,245	**44,316,120**	**1,245**
31 December 2010	**2,893,027,370**	**81,287**	**(41,763,974)**	**(1,173)**	**2,851,263,396**	**80,114**

(in million of RUR)

18. Equity (continued)

	Issued shares		*Treasury shares*		*Total*	
	thousand units	***million RUR***	***thousand units***	***million RUR***	***thousand units***	***million RUR***
1 January 2011	**2,893,027,370**	**81,287**	**(41,763,974)**	**(1,173)**	**2,851,263,396**	**80,114**
Additional issue of ordinary shares	5,950,622,717	167,199	–	–	**5,950,622,717**	**167,199**
Acquisition of entities under common control	872,349,913	24,511	–	–	**872,349,913**	**24,511**
Acquisition of treasury shares	–	–	(2,918,303,817)	(81,998)	**(2,918,303,817)**	**(81,998)**
Sale of treasury shares	–	–	1,622,508,925	45,589	**1,622,508,925**	**45,589**
Redemption of treasury shares under the share option plan	–	–	1,647,564	46	**1,647,564**	**46**
30 June 2011	**9,716,000,000**	**272,997**	**(1,335,911,302)**	**(37,536)**	**8,380,088,698**	**235,461**

2010. 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. As a result of additional issue of shares the authorised share capital increased by RUR 17,390 million.

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. 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.

2011. The shareholders meeting held on 25 June 2010 approved the issue of 13.8 billion ordinary shares of JSC INTER RAO UES with the nominal value of RUR 0.02809767 each. On June 2011, JSC INTER RAO UES completed its placement of additional shares. 6,822,972,629,771 additional shares were issued.

As a result of the additional issue of shares in the 1st half of 2011, the authorized share capital of JSC INTER RAO UES increased by RUR 191,790 million and as at 30 June 2011 consists of 9,716 billion of ordinary shares.

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 RUR 3,970 million was recognised as share premium in the consolidated interim statement of changes in equity for six months ended 30 June 2010.
As at 30 June 2011 the Group did not intend to exercise the Call option.

Treasury shares

As at 1 January 2010 the Group held 98,064,455 thousands treasury shares amounted to RUR 2,755 million.

All the treasury shares have been obtained as a result of the reorganisation of the Parent company in earlier periods and being held by one of the Company’s 100% subsidiaries.

(in million of RUR)

18. Equity (continued)

During the 1st half of 2010 4,330,898 thousand of treasury shares amounted to RUR 122 million have been redeemed by the management of the Group under share option programme (see Note 33).

During the 2nd half of 2010 39,985,222 thousand of treasury shares amounted to RUR 1,123 million have been redeemed by the management of the Group under share option programme (see Note 33).

The Group also has sold 11,984,361 thousand of treasury shares amounted to RUR 337 million to third parties during the 2nd half of 2010. Cash consideration for the treasury shares sold equalled to RUR 551 million.

As at 31 December 2010 the Group held 41,763,974 thousands treasury shares amounted to RUR 1,173 million.

During the 1st half of 2011 as a result of the additional issue of shares the 2,918,303,817 thousands treasury shares have been obtained by the Group in the amount of RUR 81,998 million. 1,615,028,387 thousand of these treasury shares in the amount of RUR 45,379 million have been placed as purchase consideration for controlling interest acquired during the reporting period.

During the 1st half of 2011 1,647,564 thousand of treasury shares amounted to RUR 46 million have been redeemed by the management of the Group under share option programme (see Note 33). Cash consideration for the treasury shares sold equalled to RUR 12 million.

During the 1st half of 2011 7,480,538 thousand of treasury shares amounted to RUR 210 million have been sold to third parties.

Share premium

2010. The difference between the issue cost (RUR 0.0402) and the nominal value of shares issued in 2010 in the amount RUR 7,490 million has been recognised as share premium in the consolidated interim statement of financial position and consolidated interim statement of changes in equity. 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 RUR 3,970 million (as at 31 December 2010 – 3,970) was recognised as share premium in the consolidated interim statement of changes in equity.

2011. Share premium represents the difference between the stock quotation of JSC INTER RAO UES shares at the date of acquisition of shares in Investments in quoted and unquoted financial instrument (Available-for sale assets, Assets classified as held-for-sale assets, Associate companies and shares in subsidiaries (acquired from other parties)) and nominal value of shares issued of RUR 0.02809767 each. At 30 June 2011 the effect of additional issue of shares in 2011 in the amount RUR 58,246 million has been recognised as share premium in the consolidated interim statement of financial position and consolidated interim statement of changes in equity.

Effect from additional issue of shares

The total effect in the amount of RUR 208,566 million represented in the consolidated interim statement of changes in equity for the six months ended 30 June 2011 consists of:

- the cost of investments in quoted shares amounted to RUR 76,335 million;
- the cost of investments in unquoted shares amounted to RUR 443 million;
- the cost of assets classified as held-for-sale amounted to RUR 59,256 million (Note 16);
- the cost of investment in JSC WGC-3 amounted to RUR 52,108 million and non-controlling interest recognised at the date of acquisition amounted to RUR 20,374 million;
- cash received from sale of shares to third parties amounted to RUR 50 million.

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.

Consolidated Interim Statement of Changes in Equity includes dividends declared by entities acquired under common control before their legal acquisition (date of acquisition through the additional issue of shares by the Parent during the 1st half 2011). These dividends actually represent a direct distribution to the shareholders of the entities acquired under common control and, therefore, represent a distribution of their equity recognised in these financial statements.

(in million of RUR)

18. Equity (continued)

On 30 April 2010 UAB INTER RAO Lietuva, the Group entity, declared dividends for the year 2009 of LTL 28.98 thousand per share for the total of LTL 29 million or RUR 320 million, out of which LTL 14 million or RUR 157 million were paid to non-controlling shareholders.

On 31 March 2010 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2009 of KZT 172 million or RUR 24 million, out of which KZT 41 million or RUR 6 million were paid to non-controlling shareholders.

On 28 May 2010 JSC Tambov Energy Retailing Company, the Group entity, declared dividends for the year 2009 of RUR 0.003727863 per preference share for the total of RUR 1 million, the total amount was paid to non-controlling shareholders.

On 25 June 2010 JSC Hrazdan Energy Company (RazTES) declared dividends for the year 2009 of AMD 48.15735 per share for the total of AMD 76.9 million or RUR 7 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

On 24 June 2010 JSC Saint-Petersburg Sale Company, declared dividends for the year 2009 of RUR 0.608606 per preference share for the total of RUR 80 million, out of which RUR 49 million were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests and RUR 31 million were payable to non-controlling shareholders.

On 30 June 2010 one of subsidiaries of JSC Mosenergosbyt declared dividends for the year 2009 of RUR 6 million, out of which RUR 3 million were paid to non-controlling shareholders.

On 17 March 2011 JSC Industrial Energetics, the Group entity, declared and paid dividends for the year 2010 of RUR 24,900 per share for the total of RUR 75 million, out of which RUR 19 million were paid to minorities.

On 10 June 2011 JSC Industrial Energetics, the Group entity, declared dividends for the 1st quarter 2011 of RUR 39,900 per share for the total of RUR 120 million, out of which RUR 30 million were paid to non-controlling shareholders.

On 27 April 2011 UAB INTER RAO Lietuva, the Group entity, declared dividends for the year 2010 of LTL 60.8 million or RUR 711.5 million, out of which LTL 29.8 million or RUR 349 million were paid to non-controlling shareholders.

On 24 June 2011 the Parent company declared dividends for the year 2010 of RUR 0.00001544 per share for the total of RUR 150 million.

On 30 June 2011 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2010 of KZT 246.5 million or RUR 47 million, out of which KZT 59.5 million or RUR 10 million were paid to non-controlling shareholders.

On 24 June 2011 JSC Saint-Petersburg Sale Company, the Group entity, declared dividends for the year 2010 of RUR 0.0521448952 per share for the total of RUR 47 million, out of which RUR 3 million were paid to non-controlling shareholders.

On 28 June 2011 JSC Tambov Energy Retailing Company, the Group entity, declared dividends for the year 2010 of RUR 0.0257325356 per preference share for the total of RUR 6 million to non-controlling shareholders.

In April – June 2011 subsidiaries of JSC Mosenergosbyt , the Group entity, declared dividends for the year 2010 of RUR 94 million, out of RUR 43 million were paid to non-controlling shareholders.

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 20 (iii)). The payment period according to the agreement is six months; the first repayment date is 12 November 2009. For six months ended 30 June 2011 the net gain on the above hedge transactions was recognised in other comprehensive income of the consolidated interim statement of comprehensive income and amounted to RUR 1 million (for six months ended 30 June 2010: the net loss in the amount of RUR 89 million, net of tax RUR 22 million). As at 30 June 2011 the loss on the above hedge transaction amounted to RUR 89 million, net of tax of RUR 22 million (as at 31 December 2010: the loss in the amount of RUR 90 million, net of tax of RUR 22 million, as at 30 June 2010: the loss in the amount of RUR 84 million, net of tax of RUR 22 million).

(in million of RUR)

18. Equity (continued)

During the year 2010 and six months 2011 the Parent company entered into a number of foreign currency forward contracts in order to hedge cash flows related to foreign currency sales denominated in Euro. For six months ended 30 June 2011 the net gain on the above hedge transactions was recognised in other comprehensive income of the consolidated interim statement of comprehensive income and amounted to RUR 82 million, net of tax RUR 21 million (for six months ended 30 June 2010: the net gain in the amount of RUR 2 million, net of tax) . As at 30 June 2011 the gain on the above hedge transactions amounted to RUR 195 million, net of tax of RUR 49 (as at 31 December 2010: the gain in the amount of RUR 113 million, net of tax of RUR 28 million, as at 30 June 2010: the net gain in the amount of RUR 2 million).

During the six months 2011 RAO Nordic Oy entered into electricity forward contracts in order to hedge cash flows associated with the electricity sales. For six months ended 30 June 2011 the net gain on the above hedge transactions was recognised in other comprehensive income of the consolidated interim statement of comprehensive income and amounted to RUR 1,392 million, net of tax RUR 489 million (for six months ended 30 June 2010: nil). As at 30 June 2011 the net gain on the above hedge transactions amounted to RUR 139 million, net of tax RUR 49 million (as at 31 December 2010: the loss in the amount of RUR 1,253 million, net of tax RUR 440 million; as at 30 June 2010: nil).

Fair value reserve

For six months ended 30 June 2011 the net loss on the revaluation of available-for-sale financial assets was recognised in other comprehensive income of the consolidated interim statement of comprehensive income and amounted to RUR 9,775 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 9,767 million and RUR 8 million, respectively (for six months ended 30 June 2010: the net gain in the amount of RUR 18 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 12 million and RUR 6 million, respectively) . As at 30 June 2011 the accumulated revaluation reserve on the above transactions amounted to RUR 9,790, related to Shareholders of the Company and non-controlling interest in the amount of RUR 9,777 million and RUR 13 million, respectively (as at 31 December 2010: accumulated revaluation reserve in the amount of RUR 15 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 10 million and RUR 5 million, respectively , as at 30 June 2010: accumulated revaluation reserve in the amount of RUR 20 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 13 million and RUR 7 million, respectively).

19. Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The dilutive effect of outstanding options (Note 33) as at 30 June 2010 is reflected as share dilution in the computation of diluted earnings per share. As at 30 June 2011 the antidilutive effects of the recognition of Put and Call option signed with SC Vnesheconombank (see Note 18) are not included in calculation of diluted earnings per share.

	Six months ended 30 June 2010 (restated)
Weighted average number of shares for basic earnings per share	3,086,479,435,155
Including effect attributable to the Group prior second share issue	2,217,082,329,988
Including effect attributable to retrospective consolidation of acquired entities under the second share issue	869,397,105,167
Effect of dilution:	
Share options	35,688,123,635
Weighted average number of shares adjusted for effect of dilution	**3,122,167,558,790**
Profit / (loss) attributable to the shareholders of the Company	2,783
Basic earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company (RUR)	0.00090
Diluted earnings per ordinary share for profit / (loss) attributable to the shareholders of the Company (RUR)	0.00089

	Six months ended 30 June 2011
Weighted average number of shares - basic and diluted	**6,088,395,991,061**
Profit attributable to the shareholders of the Company	46,610
Earnings per ordinary share for profit attributable to the shareholders of the Company (RUR) – basic and diluted	0.00766

(in million of RUR)

20. 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 covenants clauses.

Loans and borrowings	*Currency*	*30 June 2011*	*31 December 2010 (restated)*
Mejregionenergostroy JSC (v)	RUR	12,894	–
Transcreditbank JSC	RUR	3,000	3,800
Alfa-Bank JSC	RUR	4,700	4,200
Vnesheconombank SC (iv)	RUR	2,291	2,449
Sberbank JSC	RUR	2,000	4,000
ROSSIYA JSC	RUR	3,000	1,000
Gazprombank JSC	RUR	5,285	4,324
ING Bank NV	RUR	2,333	2,833
UniCredit Bank JSC	RUR	508	509
Other		1,001	878
Total in RUR	**RUR**	**37,012**	**23,993**
Vnesheconombank SC (iii) [1]	USD	4,576	4,968
EBRD (vi)	USD	746	–
Ministry of Finance, Georgia (i,a-b)	USD	117	115
Other		173	963
Total in USD	**USD**	**5,612**	**6,046**
EBRD (vii)	EUR	1,578	1,700
Vnesheconombank SC (viii)	EUR	835	899
ROSSIYA JSC	EUR	606	605
Ministry of Finance, Georgia (i,c)	EUR	29	29
Other		–	164
Total in EUR	**EUR**	**3,048**	**3,397**
Government of Armenia (ii)	JPY	708	788
Government of Georgia	JPY	388	–
Total in JPY	**JPY**	**1,096**	**788**
Total in GEL	**GEL**	**98**	**–**
Financial lease			
Financial lease (ix)	RUR	847	1,040
Financial lease	USD	533	633
Financial lease	EUR	5	2
Total long-term borrowings		**48,251**	**35,899**
Less: current portion of long-term loans and borrowings and long-term financial lease		(3,538)	(3,301)
		44,713	**32,598**

Effective interest rate

	30 June 2011	*31 December 2010 (restated)*
Loans and borrowings with fixed interest rate		
RUR	7.50 - 12.00%	8.50 – 14.00%
USD	10.00 - 20.00%	10.00 - 20.00%
EUR	7.50%	7.50 - 18.00%
JPY	8.00 - 18.00%	8.00%
Loans and borrowings with variable interest rate		
RUR	5.50 - 10.75%	5.49 – 15.40%
USD	3.75 - 6.44%	6.44 - 6.62%
EUR	5.04 - 8.54%	5.92 - 8.14%
Financial lease		
RUR	4.32 - 13.11%	4.32 - 13.11%
USD	15.39%	14,79%
EUR	4.90%	4.90%

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 appropriate, to the net carrying amount of the financial asset or liability.

[1] The Group hedged risks related to LIBOR floating interest rate of Vnesheconombank SC loan nominated in USD (see Note 18).

20. Loans and borrowings (continued)

Effective interest rate (continued)

As at 30 June 2011 the estimated fair value of total non-current debts (including the current portion) was RUR 45,913 million (31 December 2010: RUR 35,634 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 30 June 2011 one of the Group entities, Mtkvari Energy LLC, had three loans of total carrying value of RUR 146 million 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 90 million under contractual payment schedule from 2019 to 2076, interest rate 7%;

(b) Ministry of Finance, Georgia (EBRD) – USD 14.4 million under contractual payment schedule from 2019 to 2071, interest rate 8.2%;

(c) Ministry of Finance, Ministry of Fuel and National Bank, Georgia (KfW) – EUR 29 million under contractual payment schedule from 2019 to 2053, 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 2076. 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 RUR 13 million and RUR 26 million during six months ended 30 June 2011 and 30 June 2010, respectively.

(ii) 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.

(iii) As at 30 June 2011 the Parent Company had a loan in the amount of USD 163 million with initial floating interest rate of LIBOR+6%, which was obtained for the purpose of financing the purchase of Freecom Trading Limited. In the first quarter 2011 in accordance with addendum the margin was changed to 4.5% and as a result the interest rate is LIBOR+4.5%.The loan is to be repaid on 12 November 2013.

(iv) The loan equalled to RUR 2,291 million was obtained by the Parent Company in March 2009 with the total amount of credit limit of RUR 3.7 billion and initial fixed interest rate equalled to 14%. In the second quarter 2010 in accordance with the additional agreement interest rate was changed to floating equalled CBR+2.75%. In the first quarter 2011 in accordance with the additional agreement the margin was changed to 1.4% and as a result the interest rate is CBR+1.4%. 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.

20. Loans and borrowings (continued)

Effective interest rate (continued)

(v) On 23 June 2011 direct financing received from JSC Mejregionenergostroy for the purpose of construction of the second power generation block Kaliningradskaya TEC-2 (see Note 21) was novated into long-term loan agreement with the contractual interest rate equalled 0.83%. The loan has been discontinued, using the effective interest rate of 9%; and a charge recognised within interest income amounted to RUR 4,489 million. The body of loan and interest accrued for the whole period will be paid in 2015. In June 2011 all obligations related to loan were transferred to one of the Group entities Inter RAO Capital. The Parent Company act as a guarantor under agreement for transfer of obligations.

(vi) On February 2011 JSC Telasi obtained a credit from EBRD amounted to USD 25 million with the floating interest rate Libor+3.5%, for the continuation of financing the investment program on rehabilitation of the electricity distribution low-voltage network system. The Parent Company acts as a guarantor under this agreement.

(vii) As at 30 April 2009 CJSC Elektricheskie seti Armenii obtained a credit amounted to EUR 42.0 million with the floating interest rate Libor + Margin for the purpose of financing the investment program on rehabilitation and upgrading of the electricity distribution network system. In the first half of 2011 the margin was changed and it varies from 3.5% to 5.0%.The Parent Company acts as a guarantor under this agreement.

(viii) As at 17 June 2009 CJSC Elektricheskie seti Armenii obtained a credit amounted to EUR 22.5 million with the floating interest rate Euribor+7.0% for the purpose of financing the investment program on rehabilitation and upgrading of the electricity distribution network system. In the first half of 2011, in accordance with terms of agreement, the margin was changed to 5.0%. A 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.

(ix) The financial lease liability nominated in RUR are mainly comprised by indebtedness to CJSC Busines-Aliance in the amount of RUR 837 million as at 30 June 2011 and represents finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS, one of the Parent Company branches. The power generating block was set into operation at the end of 2009 financial year. Under the terms of the lease agreement the lessor imposes all the costs arising from the change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR) on the Parent company.

In June 2010 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 иapproved the decision to issue guarantee to the banks at the amount of 50% of the two loans and the Company's Board of directors have 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

	30 June 2011	*31 December 2010 (restated)*
Less than one year	441	515
Between one and five years	1,299	1,602
After five years	7	12
	1,747	**2,129**
Future finance charges on finance leases	(362)	(450)
Present value of finance lease liabilities	**1,385**	**1,679**

The present value of finance lease liabilities is as follows:

	30 June 2011	*31 December 2010 (restated)*
Less than one year	293	355
Between one and five years	1,086	1,313
After five years	6	11
	1,385	**1,679**

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rate (continued)

Maturity table:

	30 June 2011	*31 December 2010 (restated)*
Due for repayment		
Between one and two years	13,925	5,777
Between two and five years	26,902	24,169
After five years	3,886	2,652
	44,713	**32,598**

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	*30 June 2011*	*31 December 2010 (restated)*
Current loans and borrowings	5.00 - 7.4%	1,368	2,428
Current portion of non-current loans and borrowings	5.6 - 10.75%	3,245	2,946
Current portion of finance lease liability	9.00 - 14.79%	293	355
Interest payable (incl. interest on short-term loans and short-term interest on long-term loans)		173	207
Total		**5,079**	**5,936**

As at 30 June 2011 bank loan from CJSC HSBC Bank Armenia is collateralised by properties with a carrying amount of RUR 16 million (31 December 2010: RUR 4 million) (see Note 6 (b).

The Group has the following undrawn borrowing facilities:

	30 June 2011	*31 December 2010 (restated)*
Floating rate:		
Expiring within one year	9,400	6,798
Expiring beyond one year	6,300	6,050
	15,700	**12,848**
Fixed rate:		
Expiring within one year	4,230	4,219
Expiring beyond one year	17,668	6,475
	21,898	**10,694**
Total	**37,598**	**23,542**

21. Accounts payable and accrued liabilities

	30 June 2011	*31 December 2010 (restated)*
Financial liabilities		
Trade payables	25,931	23,369
Short-term derivative financial instruments	57	1,750
Dividends payable	418	741
Other payables and accrued expenses	6,064	4,314
Total	**32,470**	**30,174**
Non-financial liabilities		
Direct financing	–	14,430
Advances received	13,884	8,635
Staff payables	2,189	1,900
Provision short-term	2,301	1,274
Total	**18,374**	**26,239**
	50,844	**56,413**

(in million of RUR)

21. Accounts payable and accrued liabilities (continued)

As at 31 December 2010 direct financing in the amount of RUR 14,430 million represented 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. On 23 June 2011 direct financing agreement was novated into long-term loan agreement (see Note 20, (v)).

As at 30 June 2011 the amount of RUR 1,318 million included in other payables and accrued expenses comprised liability to FORTUM POWER AND HEAT OY on the purchase agreement of shares of JSC PSC.

Included in other payables and accrued expenses the amount of RUR 2,078 million (31 December 2010: nil) represents liabilities to Georgian government under the acquisition agreement of JSC Khramesi I, II.

As at 30 June 2011 the amount of RUR 692 million (31 December 2010: RUR 980 million), included in other payables and accrued expenses, comprised liability on the contribution to charter capital of JSC AKKUYU NPP (see Note 36).

Provisions short-term mainly comprised by penalties on water tax RUR 884 million (31 December 2010: nil) and provision on anti-monopoly disputes RUR 1,138 million (31 December 2010: RUR 1,138 million).

Provisions short-term as at 30 June 2011 include RUR 1 million (31 December 2010: RUR 1 million) of current-portion of site restoration provision (see Note 22).

22. Other non-current liabilities

	30 June 2011	***31 December 2010 (restated)***
Financial liabilities		
Long-term derivative financial instruments	3,676	124
Other long-term liabilities	515	133
Total financial liabilities	**4,191**	**257**
Non-financial liabilities		
Pensions liabilities	1,931	1,342
Site restoration provision	582	289
Direct financing	–	–
Government grants	423	485
Total non-financial liabilities	**2,936**	**2,116**
Total	**7,127**	**2,373**

As at 30 June 2011 other long-term financial liabilities included RUR 515 million payable by JSC OGK-1 to subcontractors related to the construction of Urengoyskaya GRES. This amount represents guarantee obligation that must be returned to subcontractors not earlier than September 2012.

Government grants relate to the nominal interest loan received from Government of Armenia (see Note 20, (ii)).

Long-term derivative financial instruments recognized as at 30 June 2011 in total amount of RUR 3,676 million 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 SC Vnesheconombank nominated in USD in the amount of RUR 122 million (31 December 2010: RUR 124 million) (see Note 20) and call and put option agreement with SC Vnesheconombank signed by Parent company in the amount of RUR 3,554 million (see Note 12).

Site restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes. The Group has recognized an obligation to restore the disturbed plots, occupied by ash dumps, on expiration of their useful lives.

The Group recognized a provision for these future expenses in the amount of RUR 582 million (31 December 2010: RUR 289 million). The discount rates used to calculate the net present value of the future cash outflows relating to the land reclamation at 30 June 2011 were in range from 6.05% to 8.03% per annum.

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.

(in million of RUR)

22. Other non-current liabilities (continued)

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 Interim Statement of financial position:

	30 June 2011	*31 December 2010 (restated)*	*30 June 2010 (restated)*
Present value of defined benefit obligations	2,494	1,952	1,089
Less: Fair value of plan assets	–	–	–
Deficit in plan	2,494	1,952	1,089
Net actuarial loss not recognised in the statement of financial position	**(182)**	**(164)**	**117**
Unrecognised past service costs	(381)	(446)	(175)
Pension liabilities in the balance sheet	**1,931**	**1,342**	**1,031**

Amounts recognised in the Consolidated Interim Statement of comprehensive income:

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Current service cost	47	21
Interest cost	67	20
Recognised actuarial loss	9	5
Recognised past service cost	(11)	8
Total	**112**	**54**
Curtailment and settlement gain	(21)	(15)
Total	**91**	**39**

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

	30 June 2011	*30 June 2010 (restated)*
Present value of defined benefit obligations as at the beginning of the period	1,952	1,010
Current service cost	47	21
Interest cost	67	20
Actuarial loss	45	(43)
Past service cost	(40)	105
Benefits paid	(44)	(9)
Curtailment and settlement gain	(15)	–
Acquisition of controlling interest	542	–
Other	(60)	(15)
Present value of defined benefit obligations as at the end of the period	**2,494**	**1,089**

Plan assets

	30 June 2011	*30 June 2010 (restated)*
Employer contributions	44	9
Benefits paid	(44)	(9)
Fair value of plan assets as at the end of the period	**–**	**–**

(in million of RUR)

22. Other non-current liabilities (continued)

Changes in the pension liabilities are as follows:

	30 June 2011	30 June 2010 (restated)
Pension liabilities at start of the year	1,342	1,001
Net expense recognised in the statement of comprehensive income	91	39
Benefits paid	(44)	(9)
Acquisition of controlling interest	542	–
Pension liabilities at end of period	**1,931**	**1,031**

Principal actuarial assumptions are as follows:

	30 June 2011	31 December 2010 (restated)	30 June 2010 (restated)
Discount rate	8,00%	9,00%	8,00%
Salary increase	7,50%	7,50%	5,00%
Inflation	6,00%	6,00%	7,00%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998	Russian population mortality table 1998

Staff turnover was assessed using an experience-based model.

The Group's best estimate of contributions to be paid in next year-long period is RUR 114 million (31 December 2010: RUR 112 million).

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

	30 June 2011	30 June 2010 (restated)
Defined benefit obligation	2,494	1,089
Plan assets	–	–
Deficit in plan	2,494	1,089
Experience adjustments on plan liabilities, gain/(loss)	32	38
Experience adjustments on plan assets	–	–

23. Taxes payable

	30 June 2011	31 December 2010 (restated)
Value added tax	3,394	2,574
Property tax	445	417
Fines and interest	54	103
Other taxes	887	480
	4,780	**3,574**

Included in value added tax payable is RUR 104 million of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2010: RUR 152 million).

24. Revenue

	Six months ended 30 June 2011	Six months ended 30 June 2010 (restated)
Electricity and capacity	251,007	204,474
Government Grants / Subsidies	9	2
Other revenue	2,916	1,387
	253,932	**205,863**

Electricity and capacity revenue includes RUR 32,851 million (RUR 17,250 million for the half year ended 30 June 2010) revenue from sales transactions through JSC CFR - the utility market intermediary in the Russian Federation and RUR 8,546 million (RUR 4,899 million for the half year ended 30 June 2010) revenue from sales to NordPool - the Nordic power exchange.

(in million of RUR)

25. Other operating income

	Six months ended 30 June 2011	Six months ended 30 June 2010 (restated)
Electricity derivatives	728	480
Penalties and fines	400	257
Gain from sale of controlling interest	258	–
Rental income	131	152
Other	698	417
	2,215	**1,306**

26. Operating expenses

	Six months ended 30 June 2011	Six months ended 30 June 2010 (restated)
Purchased electricity and capacity	101,073	89,879
Transmission fees	71,451	57,654
Fuel expense	33,524	22,049
Employee benefit expenses and payroll taxes	11,926	9,464
Depreciation of property, plant and equipment	5,234	3,327
Provision for impairment of account receivables	2,448	1,676
Repairs and maintenance	1,392	1,399
Taxes other than on income	1,326	1,294
Other materials for production purposes	1,169	852
Agency fees	1,081	815
Expenses from derivatives trading operations on the electricity market	1,009	777
Impairment of available-for-sale investments	833	–
Operating lease expenses	828	740
Consulting, legal and auditing services	793	315
Insurance expenses	409	290
Security expenses	353	287
Communication services	247	242
Bank services	235	433
Other provisions	232	(431)
Amortisation of Intangible assets	226	178
Social Expenditure	217	203
Business trip and field travel expenses	216	162
Material expenses (office maintenance)	117	82
Write off of bad debt which was not previously provided	116	(24)
Impairment of Property Plant and Equipment – charge/(release)	80	(39)
Loss on write-off of property, plant and equipment	32	32
Impairment of Intangible assets	22	–
Depreciation of investment property	9	9
Release of impairment of Investment property	–	(230)
Other expenses	5,447	4,015
	242,045	**195,450**

27. Finance income and expenses

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Finance income		
Interest income	5,777	436
Dividend income	767	–
Other finance income	114	64
	6,658	**500**

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Finance expenses		
Interest expense	1,925	2,309
Foreign currency exchange loss, net	263	68
Other finance expenses	6,334	2,153
	8,522	**4,530**

Discounting effect on the long-term loan agreement with JSC Mejregionenergostroy (see Note 20(v)) in the amount RUR 4,489 million was recognized within interest income.

The expense in the amount RUR 6,095 million (RUR 2,093 million for the half year ended 30 June 2010), included into other finance expenses, is related to recognition of fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 18).

28. Income tax expense

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Recognized in profit and loss:		
Current tax expense	(3,361)	(1,516)
Deferred tax expense:	(1,200)	(1,294)
	(4,561)	**(2,810)**

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (30 June 2010: 20%). The income tax rate in Finland is 26% (30 June 2010: 26%), in Georgia is 15% (30 June 2010: 15%), in Lithuania is 15% (30 June 2010: 20%) in Armenia is 20% (30 June 2010: 20%), in Kazakhstan 20% (30 June 2010: 20%). The tax system in Transnistria, Moldova, where Moldavskaya GRES operates, is based on revenue at a rate of 3.0% (30 June 2010: 3.8%).

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:

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Profit before profit tax	54,368	8,027
Theoretical profit tax charge at 20%	(10,874)	(1,605)
Effect of different tax rates	107	51
Effect of different tax base (Moldavskaya GRES)	(81)	(104)
Effect from acquisition of controlling interest	8,053	–
Effect from acquisition of available-for-sale financial assets and assets classified as held-for-sale (including impairment)	(100)	–
Tax effect on recognition of call and put option	(711)	(815)
Utilization of previously unrecognized tax losses	278	(7)
Tax effect of items which are not deductible or assessable for taxation purposes, net	(248)	180
Amended tax declarations (JSC Mosenergosbyt, JSC Saratovenergo, JSC TGK-11)	(255)	44
Recognition of previously unrecognised deductible temporary differences	(256)	(112)
Other	(474)	(442)
	(4,561)	**(2,810)**

(in million of RUR)

28. Income tax expense (continued)

Effect from acquisition of controlling interest in the amount of RUR 8,053 million relates to deferred tax liability recognised for property, plant and equipment in JSC WGC-3 (see Note 5).

Effect from acquisition of available-for-sale financial assets and assets classified as held-for-sale (including impairment) consist of unrecognised deferred tax related to the acquisition of these investments in the amount of RUR 67 million and impairment of available-for-sale financial assets in the amount of RUR 167 million.

29. 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. Risk management is carried out in accordance with a risk policy approved by the Management Board.

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

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

30 June 2011	*Note*	*Loans and receivables*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated interim statement of financial position					
Available-for-sale financial assets	11	–	–	67,782	67,782
Assets classified as held-for-sale	16	–	–	59,903	59,903
Derivative financial instruments	17	–	549	–	549
Trade and other receivables excluding prepayments	12,14	32,604	–	–	32,604
Restricted cash	17	311	–	–	311
Deposits with maturity exceeding 3 months	12,17	36,446	–	–	36,446
Cash and cash equivalents	15	51,390	–	–	51,390
Total assets		**120,751**	**549**	**127,685**	**248,985**

30 June 2011	*Note*	*Liabilities at fair value through profit and loss*	*Other financial liabilities at amortised cost*	*Finance lease liabilities*	*Total*
Liabilities as per consolidated interim statement of financial position					
Borrowings (excluding finance lease liabilities)	20	–	48,407	–	48,407
Finance lease liabilities	20	–	–	1,385	1,385
Derivative financial instruments	21,22	3,733	–	–	3,733
Trade and other payables excluding taxes	21,22	–	32,928	–	32,928
Total liabilities		**3,733**	**81,335**	**1,385**	**86,453**

31 December 2010 **(restated)**	*Note*	*Loans and receivables*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated interim statement of financial position					
Available-for-sale financial assets	11	–	–	202	202
Derivative financial instruments	12,17	–	2,725	–	2,725
Trade and other receivables excluding prepayments	12,14	37,704	–	–	37,704
Restricted cash	17	862	–	–	862
Deposits with maturity exceeding 3 months	17	1,276	–	–	1,276
Cash and cash equivalents	15	31,207	–	–	31,207
Total assets		**71,049**	**2,725**	**202**	**73,976**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

Financial risk factors (continued)

31 December 2010 (restated)	*Note*	*Liabilities at fair value through profit and loss*	*Other financial liabilities at amortised cost*	*Finance lease liabilities*	*Total*
Liabilities as per consolidated interim statement of financial position					
Borrowings (excluding finance lease liabilities)	20	–	36,855	–	36,855
Finance lease liabilities	20	–	–	1,679	1,679
Derivative financial instruments	21,22	1,874	–	–	1,874
Trade and other payables excluding taxes	21,22	–	28,557	–	28,557
Total liabilities		**1,874**	**65,412**	**1,679**	**68,965**

(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.

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.

Cash is placed in financial institutions, which are considered to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings (see Note 15) they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation or the other countries in which the Group entities operate.

As at 30 June 2011 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of RUR 26,375 million (31 December 2010: RUR 27,295 million), and other receivables in the amount of RUR 5,419 million (31 December 2010: RUR 10,409 million). The total sum of receivables as at 30 June 2011 was RUR 31,794 million (as at 31 December 2010: RUR 37,704 million).

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 30 June 2011	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	23,689	–	23,689	75%
B'	1,909	(262)	1,647	5%
B''	5,696	(2,036)	3,660	12%
B'''	4,671	(2,097)	2,574	8%
C	9,882	(9,792)	90	0%
Loans issued to employees	282	(160)	122	0%
Related parties	12	–	12	0%
Total	**46,141**	**(14,347)**	**31,794**	**100%**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(a) Credit risk (continued)

As at 31 December 2010 **(restated)**	***Nominal value***	***Provision for impairment of accounts receivable***	***Carrying amount***	***Share in total, %***
A	30,865	–	30,865	83%
B'	1,530	(217)	1,313	3%
B''	7,971	(2,784)	5,187	14%
B'''	94	(31)	63	0%
C	7,657	(7,591)	66	0%
Loans issued to employees	300	(176)	124	0%
Related parties	175	(89)	86	0%
Total	**48,592**	**(10,888)**	**37,704**	**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.

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 (Khramesi I (till 31 March 2011), Khramesi II (till 31 March 2011), CJSC Armenian Nuclear Plant) 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. Since 2010 the Group started use forward contracts to manage the Group's foreign currency risks (see Note 17 and 21).

29. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

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

At 30 June 2011	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	2,752	4,115	207	7,074
Cash and cash equivalents	1,797	1,817	3	3,617
Restricted cash	158	–	–	158
Derivative financial instruments (assets)	244	–	–	244
Loans and borrowings (excluding finance lease liabilities)	(4,315)	(8,988)	(1,104)	(14,407)
Finance lease liabilities	(784)	(609)	–	(1,393)
Derivative financial instruments (liabilities)	(2,423)	(122)	–	(2,545)
Trade and other payables (excluding taxes)	(771)	(2,981)	(831)	(4,583)
Net foreign currency position	**(3,342)**	**(6,768)**	**(1,725)**	**(11,835)**

***At 30 June 2010* (restated)**	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	2,928	8,689	71	11,688
Cash and cash equivalents	2,009	1,192	62	3,263
Restricted cash	159	–	–	159
Available - for - sale financial assets	3	–	–	3
Loans and borrowings (excluding finance lease liabilities)	(3,694)	(11,460)	(590)	(15,744)
Finance lease liabilities	(868)	–	–	(868)
Derivative financial instruments (liabilities)	–	(116)	–	(116)
Trade and other payables (excluding taxes)	(592)	(1,203)	(314)	(2,109)
Net foreign currency position	**(55)**	**(2,898)**	**(771)**	**(3,724)**

For the purposes of sensitivity analysis, management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income and equity for six months ended 30 June 2011 would have been a profit RUR 457 million and loss RUR 280 million (for six months ended 30 June 2010: profit RUR 764 million and loss RUR 1,129 million) in accordance with positive and negative scenario, respectively.

At 30 June 2011	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	7.30%	(8.88)%	(2.22)%	(3.97)%	3.05%	(10.08)%	(4.50)%	2.47%	0.56%
Lower level	(7.30)%	9.61%	1.60%	3.97%	(3.62)%	11.55%	4.50%	(3.13)%	(0.51)%

At 30 June 2010 (restated)	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	(2.74)%	8.10%	5.15%	(8.80)%	(11.29)%	(16.61)%	(7.24)%	(9.78)%	(1.68)%
Lower level	15.71%	(13.48)%	0.11%	9.48%	26.67%	27.50%	7.02%	23.83%	2.29%

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.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

Variable rate debt	*30 June 2011*	*30 June 2010 (restated)*
Libor	5,322	5,865
MosPrime	2,833	4,000
EURIBOR	2,413	2,045
CBR	2,291	1,575

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

	Probable deviation of LIBOR		*Probable deviation of MosPrime*	
Hypothetical effect on income/(loss)	10 bp decrease	30 bp increase	50 bp decrease	180 bp increase
for six month ended 30 June 2011	4	(13)	11	(41)
Hypothetical effect on income/(loss)	16 bp decrease	45 bp increase	150 bp decrease	380 bp increase
for six month ended 30 June 2010 (restated)	7	(21)	37	(122)

	Probable deviation of EURIBOR		*Probable deviation of CBR*	
Hypothetical effect on income/(loss)	20 bp decrease	65 bp increase	25 bp decrease	125 bp increase
for six month ended 30 June 2011	4	(13)	5	(23)
Hypothetical effect on income/(loss)	12 bp decrease	52 bp increase	50 bp decrease	25 bp increase
for six month ended 30 June 2010 (restated)	2	(9)	6	(3)

(c) Liquidity risk

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

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

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	6,907	15,411	33,522	5,893	4,953	66,686
Trade and other payables	32,499	516	–	–	5	33,020
Finance lease payables	436	416	888	7	–	1,747
Derivative financial instruments obligations	57	122	–	–	–	179
Total at 30 June 2011	**39,899**	**16,465**	**34,410**	**5,900**	**4,958**	**101,632**

	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	7,886	7,814	25,388	5,398	5,384	51,870
Trade and other payables	28,436	134	3	6	5	28,584
Finance lease payables	519	480	1,123	12	–	2,134
Derivative financial instruments obligations	1,750	–	126	–	–	1,876
Total at 31 December 2010 (restated)	**38,591**	**8,428**	**26,640**	**5,416**	**5,389**	**84,464**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(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 Company 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 18 and 20 respectively). As at 30 June 2011 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

Each Group entity registered in the Russian Federation is individually 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 30 June, the Group entities registered in the Russian Federation were in compliance with the above share capital requirements.

(e) Electricity derivatives

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

(f) Fair values

Fair value has been determined either by reference to the market value at the end of the reporting period or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. For loans and borrowings the fair value is disclosed in the Note 20.

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

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values (continued)

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

30 June 2011	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	17	244	–	–	**244**
Interest rate SWAP	17	13	–	–	**13**
Electricity derivative	17	292	–	–	**292**
Available-for-sale financial assets					
Quoted investment security	11	66,932	–	–	**66,932**
Assets classified as held-for-sale					
Quoted investment security	16	–	59,903	–	**59,903**
Financial assets held-for-trading					
Bank deposits with maturity of three months or less	15	–	–	14,084	**14,084**
Deposits with maturity of 3-12 months	17	–	–	32,446	**32,446**
Long-term bank deposits	12	–	–	4,000	**4,000**
Total financial assets		**67,481**	**59,903**	**50,530**	**177,914**
Financial liabilities					
Derivative financial instruments					
Electricity derivative	21	57	–	–	**57**
Interest rate SWAP	22	122	–	–	**122**
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	22	–	3,554	–	**3,554**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	45,913	–	**45,913**
Total financial liability		**179**	**49,467**	**–**	**49,646**

31 December 2010 (restated)	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	17	183	–	–	**183**
Financial assets held-for-trading					
Bank deposits with maturity of three months or less	15	–	–	10,495	**10,495**
Deposits with maturity of 3-12 months	17	–	–	1,275	**1,275**
Long-term bank deposits	12	–	–	1	**1**
Financial assets designated at fair value through profit or loss:					
Put and Call option agreement	12	–	2,541	–	**2,541**
Total financial assets		**183**	**2,541**	**11,771**	**14,495**
Financial liabilities					
Derivative financial instruments					
Foreign exchange SWAP	21	3	–	–	**3**
Forward foreign exchange contract	21	41	–	–	**41**
Electricity derivative	21	1,706	–	–	**1,706**
Interest rate SWAP	22	124	–	–	**124**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	35,634	–	**35,634**
Total financial liability		**1,874**	**35,634**	**–**	**37,508**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values (continued)

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 18. 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 RUR 977 million was immediately recognized in profit and loss in the consolidated interim statement of comprehensive income as it was determined by use of a valuation technique in which all inputs include data from observable markets.

For the period starting from the date of the first recognition till 30 June 2010 the additional loss in the amount RUR 1,116 million was recognized in profit and loss in the consolidated interim statement of comprehensive income in accordance with the valuation technique.

For the second half of the year 2010 in accordance with the same valuation technique the gain in the amount RUR 664 million was recognized in profit and loss in the consolidated interim statement of comprehensive income.

During the first half of the year 2011 the loss in the amount RUR 6,095 million was recognized in profit and loss in the consolidated interim statement of comprehensive income.

As at 30 June 2011 market price of the shares equalled to RUR 0.03731 per share; as at the date of the first recognition - RUR 0.04770 per share. Put and call option price equalled to RUR 0.04396 and RUR 0.0440 per share respectively; as at the date of the first recognition – RUR 0.04020 and RUR 0.04209 per share respectively.

If the market price of the shares as at 30 June 2011 would have been a 10% higher or 10% lower, with all other variables held constant, the hypothetical effect on profit and loss for the half year ended 30 June 2011 would have been an additional income and loss of RUR 1,975 million respectively.

30. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	30 June 2011	*31 December 2010 (restated)*
Less than one year	1,040	1,167
Between one and five years	2,096	1,850
Over five years	3,260	2,783
	6,396	**5,800**

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.

During the six months ended 30 June 2011 RUR 828 million (six months ended 30 June 2010: RUR 740 million) was recognised in the consolidated interim statement of comprehensive income in respect of operating lease expenses.

(in million of RUR)

31. Commitments

Investment and capital 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. In March 2011 the additional memorandum was signed in accordance to which the investment commitments as at 30 June 2011 are as follows:

Year	*Investments, GEL million*
2011-2013	80.5
2014-2016	78.3
2017-2019	66.0
2020-2022	73.6
2023-2025	78.0

As at 30 June 2011 management considers that realisation of investment commitments was in line with schedule for the year 2011.

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.

As at 30 June 2011 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 RUR 1,138 million. All reconstruction and renovation works are to be finished in December 2011.

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 2014.

As of 30 June 2011, the Group is in compliance with the Moldavia investment program. The remaining part of the investment commitments (USD 20,810 thousand) are to be realised by April of 2014.

As at 30 June 2011 one of the Group jointly controlled entities JSC Stantsiya Ekibastuzskaya GRES-2 has contracted capital commitments for construction of block 3 amounted to RUR 1,023 million.

As at 30 June 2011 capital commitments on new entities which became subsidiaries of the Group as a result of placing additional shares of JSC INTER RAO UES are as follows.

Subsidiary	*RUR, million*
JSC WGC-3	31,318
JSC OGK-1	12,613
JSC TGK-11	4,127
JSC Mosenergosbyt	128

Mentioned above commitments mainly comprise of contract liabilities in favour of JSC Technopromexport (JSC OGK-1) and JSC M-Aliance (JSC TGK-11) for construction of combined-cycle power plant. Capital commitments of JSC WGC-3 comprise of contracts with JSC Technopromexport on construction of block 8 and 9 of Cherepetskaya GRES, CJSC Atomstroyexport on construction of energy complex of Yuzhnouralskaya GRES-2 and GE PACKAGED POWER INC. for purchasing two gas-turbine power plant for installation at Djubginskoy TES.

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 RUR 658 million (31 December 2010: RUR 817 million).

(in million of RUR)

31. Commitments (continued)

Guarantees

The Group has the following guarantees at 30 June 2011:

- Guarantee to BNP Paribas. In November 2010 the Group entered into Purchase Contract between Bariven, S.A ("Buyer") and INTER RAO UES ("Seller") for the purpose of sale and purchase of 13 Units of LM2500+G4 Gas Turbin Generator Package. The total amount of the contract is USD 309 million (or RUR 8,675 million at the CB RF exchange rate as of 30 June 2011) with an advance payment of 20% of total contract value or USD 62 million (or RUR 1,741 million at the CB RF exchange rate as of 30 June 2011). An advance payment is to be made against an advance payment letter of guarantee issued by BNP Paribas S.A in favor of the Buyer. In connection with Advance Payment letter of Guarantee INTER RAO UES entered into counter-guarantee agreement with Vneshtorgbank (hereafter referred to as "Bank VTB") in favor of BNP Baribas S.A.
- On 28 December 2009 one of the Group entities RAO Nordic Oy entered into a certain agreements for the purposes of ensuring its trade activity. As at 30 June 2011 the Parent company issued a financial guarantee to the amount of EUR 45 million (RUR 1,817 million) with an interest rate equalled to 16%. The Parent company acted as guarantor under this agreement.

Guarantees given under certain loans and borrowings agreements are disclosed in Note 20.

Acquisition of investments under additional issue of shares by the Parent company in 1st half 2011

As a result of placing additional shares, JSC INTER RAO UES became the owner a number of available-for-sale and held-for-sale investments and subsidiaries. Federal Antimonopoly Service of the Russian Federation issued a number of restrictions under these acquisitions: trading restrictions related to JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Mosenergosbyt, JSC Saint-Petersburg Sale Company, JSC Saratovenergo, JSC WGC-3 and restrictions on the right of ownership for 4th years period related to JSC Kubanenergosbyt, JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Saratovenergo, JSC WGC-3. The Group is in compliance with Federal Antimonopoly Service of the Russian Federation restrictions as of 30 June 2011 and subsequently.

32. Contingencies

(a) Political environment

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

(b) Insurance

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

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

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.

(in million of RUR)

32. Contingencies (continued)

(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.

	30 June 2011	***31 December 2010 (restated)***
Subcontractors claims	577	3
Customer's complaints	406	9
	983	**12**

In customer's complaints as at 30 June 2011 and 31 December 2010 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 interim financial statements.

In subcontractor's claims as of 30 June 2011 included legal proceeding in total of RUR 243 million from Omsk Heat Company to TGK-11 on the liabilities of the latter for heat energy transmission.

In customer's complaints as of 30 June 2011 included legal proceeding in total of RUR 219 million from Housing agency of Kalininskiy district, St. Petersburg to JSC PSK on the compensation of unjust enrichment.

(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 interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

The Group includes a number of operating and investment companies located in a number of 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 30 June 2011 would be successfully challenged in the amount of RUR 1,866 million (as at 31 December 2010: RUR 1,406 million), out of which RUR 1,345 million relates to water tax underpayment of JSC WGC-3, disputes with the tax authorities based on the results of the tax audit for 2008 and 2009 years. As at 30 June 2011 the Group also recognised a provision for the water tax disputes, related penalties and interest in the total amount of RUR 884 million (31 December 2010: RUR 774 million), as the management assessed the related risk as probable (see Note 21).

(in million of RUR)

32. Contingencies (continued)

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldova 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, except site restoration provision.

Site restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (see Note 22).

(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.

33. Related party transactions

(a) Parent company and control relationships

The Russian Federation is the ultimate controlling party of JSC Inter RAO UES and has a controlling interest in the company of over 50%. Details of operations with entities controlled by The Russian Federation are provided in the note (d).

(b) Transactions with key management personnel

The members of the Management Board own 0.0768% 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 26):

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Salaries and bonuses	248	53
Employee's Share Option Programe	–	105
	248	**158**

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.

(in million of RUR)

33. Related party transactions (continued)

(b) Transactions with key management personnel (continued)

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

A total of up to 46,000,000,000 ordinary shares were allocated under the Programme. 23,000,000,000 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 operator of the Programme. The Programme participants could exercise the share option at any time over the period from 23 June 2010 through 23 May 2011. During six months ended 30 June 2011 1,683,880,021 of share options were exercised and cash proceeds for the Group amounted to RUR 12 million.

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

	All options granted under the Programme	*Attributed to members of the Managements Board*
Number of options as at 1 January 2010	**46,000,000,000**	**23,000,000,000**
Options distributed in 2010	(44,316,119,979)	(23,000,000,000)
Number of options as at 31 December 2010	**1,683,880,021**	**–**
Options distributed in half-year 2011	(1,647,564,472)	–
Options forfeited in half-year 2011	(36,315,549)	–
Number of options outstanding as at 30 June 2011	**–**	**–**

The fair value of services received in return for 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.

	30 June 2011	*31 December 2010*
Share price (in RUR)	0.0276	0.0276
Exercise price (in RUR)	0.0071	0.0071
Expected volatility	110.59%	110.59%
Option life	608	608
Risk-free interest rate	10.05%	10.05%
Aggregated percentage allocation to 24.06.2008 - 30.06.2011	100.00%	100.00%
Fair value of the option at measurement date (in RUR)	0.022703211	0.022703211

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 six months ended 30 June 2011 the Group recognised a gain of RUR 1 million within employee benefit expenses in the consolidated interim statement of comprehensive income related to the fair value of the options forfeited (for the six months ended 30 June 2010 the Group recognised a loss of RUR 105 million).

(in million of RUR)

33. Related party transactions (continued)

(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.

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue:		
Jointly-controlled entities	8	11
Associate	–	–
Other operating income:		
Jointly-controlled entity	24	–
Associate	17	11
Interest income:		
Jointly-controlled entity	10	–
Associate	–	–
Dividend income:		
Jointly-controlled entity	54	–
Associate	–	–
	113	**22**
Purchased power:		
Jointly-controlled entity	25	92
Associates	–	–
Purchased capacity:		
Jointly-controlled entity	163	163
Associates	–	–
Other expenses:		
Jointly-controlled entity	34	–
Associates	–	–
	222	**255**

	30 June 2011	*31 December 2010 (restated)*
Accounts receivable:		
Jointly-controlled entities	76	1
Associates	–	–
Loans issued:		
Jointly-controlled entities	182	190
Accounts payable:		
Jointly-controlled entities	65	1
Associates	–	–

(in million of RUR)

33. Related party transactions (continued)

(d) Transactions with enterprises controlled by the Russian Federation

Information on transactions with entities controlled by the Russian Federation presented below:

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue:		
Electricity and capacity	63,836	68,063
Other revenues	227	241
Other operating income	182	28
	64,245	**68,332**
Operating expenses		
Purchased power and capacity	30,200	41,210
Transmission fees	64,820	54,135
Fuel expense (gas)	8,412	4,759
Fuel expense (coal)	164	–
Other purchases	22	22
Other expenses	2,156	1,275
	105,774	**101,401**
Capital expenditures	**606**	**916**

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Income and expenses:		
Interest income	(535)	–
Dividend income	(339)	–
Interest expenses	1,020	1,253
Other finance expenses (Note 27)	6,095	2,093
	6,241	**3,346**

	30 June 2011	*31 December 2010 (restated)*
Other non-current assets :		
Long-term derivative financial instruments – assets (Note 12)	–	2,541
Long-term derivative financial instruments – liabilities (Note 22)	3,554	–

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Investment to other non-current assets	662	3,734

	30 June 2011	*31 December 2010 (restated)*
Other current assets	–	275

(in million of RUR)

33. Related party transactions (continued)

	30 June 2011	*31 December 2010 (restated)*
Long-term accounts receivable:		
Other account receivables	64	2,811
Less impairment provision	(56)	(20)
Other receivables - net	**8**	**2,791**
Short-term accounts receivable:		
Trade accounts receivable gross	10,750	12,555
Less impairment provision	(4,110)	(3,734)
Trade receivables - net	***6,640***	***8,821***
Advances issued	305	231
Advances issued for capital construction	468	437
Dividend received	339	-
Other receivable	272	3,843
	8,024	**13,332**

	30 June 2011	*31 December 2010 (restated)*
Accounts payable:		
Trade accounts payable	13,973	12,080
Payables for capital construction	95	35
Other accounts payable	225	823
Advances received	2,143	1,562
Direct financing (see Note 21)	-	14,430
	16,436	**28,930**

	30 June 2011	*31 December 2010 (restated)*
Loans and borrowings payable:		
Short-term loans	534	1,126
Long-term loans	22,168	12,135
Interest on loans	68	99
	22,770	**13,360**

	30 June 2011	*31 December 2010 (restated)*
Cash and cash equivalents	7,973	3,007

	30 June 2011	*31 December 2010 (restated)*
Other current assets (bank deposits)	4,038	4

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Financial transactions:		
Loans and borrowings received	1,158	5,718
Loans and borrowings repaid	(4,178)	(15,637)

(in million of RUR)

33. Related party transactions (continued)

(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 June 30, as well as related party balances as at 30 June 2011 and 31 December 2010 are provided below:

	30 June 2011	*31 December 2010 (restated)*
Loans and borrowings payable:		
Long-term loan received	3,606	1,605

	30 June 2011	*31 December 2010 (restated)*
Cash and cash equivalents:		
Current accounts balances	8,183	264

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Income and expenses:		
Interest expenses	65	18

34. Entities under trust management

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

	Country of incorporation	*30 June 2011 % of voting shares*	*31 December 2010 % of voting shares (restated)*
Generating entities			
JSC Khramesi I*	Georgia	–	100%
JSC Khramesi II*	Georgia	–	100%
CJSC Armenian nuclear power station	Armenia	100%	100%

* The voting shares of the entities were under trust management before 31 March 2011.

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

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Revenue:		
Electricity and capacity	22	17
	22	**17**

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Purchases:		
Purchased power and capacity	921	923
	921	**923**

	Six months ended 30 June 2011	*Six months ended 30 June 2010 (restated)*
Interest income and expense:		
Interest income	2	4
	2	**4**

(in million of RUR)

34. Entities under trust management (continued)

	30 June 2011	31 December 2010 (restated)
Accounts receivable:		
Trade accounts receivable	12	5
Loans issued	–	47
Other receivable	–	43
	12	**95**

	30 June 2011	31 December 2010 (restated)
Accounts payable:		
Trade accounts payable	175	240
	175	**240**

35. Significant subsidiaries

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

	Country of incorporation	30 June 2011 Ownership/ voting	31 December 2010 Ownership/ voting (restated)	30 June 2010 Ownership/ voting (restated)
Trading entities				
RAO Nordic Oy[1]	Finland	100.00%	100.00%	100.00%
UAB INTER RAO Lietuva	Lithuania	51.00%	51.00%	51.00%
LLP Kazenergoresurs	Kazakhstan	76.00%	76.00%	76.00%
Distributing entities				
JSC Telasi	Georgia	75.00%	75.00%	75.00%
CJSC Elektricheskiye seti Armenii	Armenia	100.00%	100.00%	100.00%
Supply entities				
JSC Mosenergosbyt (Group of companies) (Note 2)	Russian Federation	50.92%	50.92%	50.92%
JSC PSK (Group of companies) (Note 2)	Russian Federation	92.52%	88.27%	61.52%
JSC Tambov Energy Retailing Company (Note 2)	Russian Federation	59.38%	59.38%	49.01%
JSC Saratovenergo (Note 2)	Russian Federation	56.97%	56.97%	49.00%
JSC Altayenergosbyt (Note 2)	Russian Federation	100.00%	100.00%	100.00%
JSC Industrial Energetics	Russian Federation	75.00%	75.00%	–
Generating entities				
Mtkvari Energy LLC	Georgia	100.00%	100.00%	100.00%
CJSC International Power Corporation (Note 5)	Armenia	–	90.00%	90.00%
CJSC Moldavskaya GRES	Moldova, Transnistria	100.00%	100.00%	100.00%
LLC INTER RAO – Powergeneration	Russian Federation	100.00%	–	–
JSC Khramesi GES I (Note 5)	Georgia	100.00%	–	–
JSC Khramesi GES II (Note 5)	Georgia	100.00%	–	–
JSC OGK-1 (Group of companies) (Note 2, 5)	Russian Federation	75.15%	74.17%	66.17%
JSC WGC-3 (Group of companies) (Note 5)	Russian Federation	81.93%	–	–
JSC TGK-11 (Group of companies) (Note 2, 5)	Russian Federation	67.71%	67.31%	67.13%
JSC RazTES (Note 2)	Armenia	100.00%	100.00%	100.00%
Other entity				
CJSC INTER RAO UES Capital	Russian Federation	100.00%	100.00%	100.00%
LLC RAO UES INTERNATIONAL FINANCE	Russian Federation	100.00%	100.00%	100.00%
JSC Eastern energy company	Russian Federation	100.00%	100.00%	100.00%
CJSC Electrolutch (see Note 5)	Russian Federation	87.48%	97.78%	97.78%
JSC United Energy Retailing Company (Note 2)	Russian Federation	100.00%	100.00%	100.00%

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

(in million of RUR)

36. Events after the reporting period

1. Group structure

a. Acquisitions

On 15 July 2011, the Group acquired a park of wind-power stations located in Lithuania.

On 22 July 2011, the Group acquired 100% of ordinary shares of LLC RN ENERGO, electricity sales company operating on the territory of the Russian Federation. According to the purchase agreement with JSC Rosneft Oil Company, the total consideration was settled by transferring of 93 billion shares issued by JSC INTER RAO UES in 1st half 2011. As a result of transactions, Rosneft Group increased its share in JSC INTER RAO UES from 0.4% to 1.36%.

On 26 September 2011, the Group acquired 96.4% in share capital of LLC EMAllians-Engineering, power equipment producer operating on the territory of the Russian Federation.

On 30 September 2011, the Group acquired 50% in share capital of LLC RT-Energotrading, an electricity supply company operating in Russian Federation.

As of the date of authorisation of these financial statements, the Group is in the process of assessing of the effect of these acquisitions on the Group's financial statements.

b. Disposals

On 5 August 2011, the Group sold non-controlling interest (24%) in JSC Industrial Energetics, an electricity trading company operating in Moscow, the Russian Federation.

On 16 August 2011, the Group sold its subsidiary LLP Nedra Kazakhstana, coal production company in Kazakhstan.

On 31 August 2011, the Group has reduced its share in generating companies JSC OGK-2 and JSC OGK-6 from 3.05% to 2.43% and from 13.20% to 9.73%, respectively. The share was reduced in accordance with buyout offer within the merger of JSC OGK-2 and JSC OGK-6.

On 19 September 2011, the Group sold 26.26% of ordinary shares in JSC Kubanenergosbyt.

Management considers that the effect of disposals is not significant for the consolidated interim financial statements of the Group.

c. Change in group structure

In August 2011, the Group registered a subsidiary LLC Inter RAO Orlovskiy energosbyt with the purpose to transfer all the assets and liabilities of the Parent's branch - Inter RAO Orlovskiy energosbyt to this subsidiary.

d. Transfer of shares for trust management

On 29 July 2011, the Group transferred 19% of ordinary shares of JSC OGK-1 for trust management to a third party.

On 17 August 2011, the Group transferred 18% of ordinary shares of JSC WGC-3 for trust management to a third party.

On 27 September 2011, the Group transferred 14.40% of ordinary shares of JSC Volga TGC and 1.09% of ordinary shares of JSC TGC-6 for trust management to a third party.

On 6 October 2011, the Group transferred 1.74% of ordinary shares (1.66% of total shares) of JSC Bashkirenergo (for trust management to a third party.

On 12 October 2011, the Group transferred 7.23% of ordinary shares (6.28% of total shares) of JSC Tomskenergosbyt for trust management to a third party.

2. Other

On 3 August 2011, the Company's Board of Directors approved the conditions of the new Share Option Programme for the Company in which members of the Company's Management Board were to be participants. 17,002 million ordinary shares (or 0.175% of share capital of the Parent Company) are to be allocated for granting share options to the members of the Company's Management Board.

(in million of RUR)

36. Events after the reporting period (continued)

2. Other (continued)

On 6 September 2011, the Group signed the collateral agreement with JSC Mejregionenergostroy under long-term loan agreement (Note 20 (v)). On 20 September 2011 the Group transferred to JSC Mejregionenergostroy 324,915,627,887 of the Parent's ordinary shares as collateral for execution of the loan agreement. On September 6, 2011 the Group signed the addendum to the long-term loan agreement under which the Group granted the option to JSC Mejregionenergostroy to buy the pledged shares for the consideration of RUR 0.0535 per share as a settlement for the loan and accrued interest.

On 14 September 2011, the liability on the contribution to charter capital of JSC AKKUYU NPP was fully settled by the Parent company (see Note 21).

On 23 September 2011, the Group obtained a loan to $74 million from ING Bank. The loan matures on September 23, 2016. The floating interest rate on the loan agreement is 6 months LIBOR + 2.1%. The funds will be used to finance the closing phase of Company's acquisition of hydroelectric power plants in Georgia - OJSC Khramesi I and OJSC Khramesi II.