JSC INTER RAO UES
IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR SIX MONTHS ENDED 30 JUNE 2010
(UNAUDITED)

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Report on review of interim consolidated financial statements

To the shareholders of OJSC INTER RAO UES

Introduction

We have reviewed the accompanying interim consolidated financial statements of OJSC INTER RAO UES and its subsidiaries ("the Group"), comprising of the interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated 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 consolidated 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 consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the 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 consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2010 and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Ernst & Young LLC

15 October 2010

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(in thousands of EUR)

Consolidated Interim Statement of Financial Position

	Note	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,534,761	1,303,316
Investment property	8	69,419	56,241
Intangible assets	9	33,917	33,163
Investments in associates and jointly controlled entities	10	277,982	216,123
Deferred tax assets	11	26,653	26,300
Other non-current assets	12	115,632	271,009
Total non-current assets		**2,058,364**	**1,906,152**
Current assets			
Inventories	13	66,563	57,244
Accounts receivable and prepayments	14	253,541	275,269
Income tax prepaid		8,266	9,108
Cash and cash equivalents	15	731,564	190,196
Other current assets	16	438,974	9,464
Total current assets		**1,498,908**	**541,281**
Total assets		**3,557,272**	**2,447,433**

(in thousands of EUR)

Consolidated Interim Statement of Financial Position (continued)

	Note	30 June 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital: registered shares	17	1,732,306	1,732,306
Share capital: non-registered shares	17	454,506	-
Treasury shares	17	(71,402)	(74,701)
Share premium	17	299,520	-
Hedging reserve	17	(2,169)	106
Property, plant and equipment revaluation reserve		438,459	438,765
Foreign currency translation reserve		(83,806)	(273,552)
Accumulated deficit		(533,629)	(524,849)
Total equity attributable to shareholders of the Company		**2,233,785**	**1,298,075**
Non-controlling interest		6,452	6,232
Total equity		**2,240,237**	**1,304,307**
Non-current liabilities			
Loans and borrowings	19	430,678	585,793
Deferred tax liabilities	11	53,883	35,481
Other non-current liabilities	21	20,760	227,550
Total non-current liabilities		**505,321**	**848,824**
Current liabilities			
Loans and borrowings	19	278,870	121,516
Accounts payable and accrued liabilities	20	509,954	150,930
Other taxes payable	22	20,643	15,650
Income tax payable		2,247	6,206
Total current liabilities		**811,714**	**294,302**
Total liabilities		**1,317,035**	**1,143,126**
Total equity and liabilities		**3,557,272**	**2,447,433**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

15 October 2010

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 10 to 81.

(in thousands of EUR)

Consolidated Interim Statement of Comprehensive Income

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue	23	946,948	776,251
Operating expenses	24	(883,224)	(706,223)
Other operating income	23	32,357	5,721
Operating profit		**96,081**	**75,749**
Finance income	25	9,485	7,523
Finance expenses	25	(104,956)	(56,882)
Share of profit / (loss) of associates and jointly controlled entities	10,6	21,145	(993)
Profit before income tax		**21,755**	**25,397**
Total income tax expense	26	(26,421)	(7,529)
(Loss) / profit for the year		**(4,666)**	**17,868**
Other comprehensive income / (expense)			
Reversal of property, plant and equipment revaluation reserve		-	(519)
Cash flow hedges, net of tax		(2,275)	1,119
Exchange gain / (loss) on translation to presentation currency		190,053	(93,985)
Other comprehensive income / (loss), net of tax		**187,778**	**(93,385)**
Total comprehensive profit / (loss) for the year		**183,112**	**(75,517)**
(Loss) / profit attributable to:			
Shareholders of the Company		(8,921)	18,323
Non-controlling interest		4,255	(455)
		(4,666)	**17,868**
Total comprehensive income / (loss) attributable to:			
Shareholders of the Company		178,550	(74,164)
Non-controlling interest		4,562	(1,353)
		183,112	**(75,517)**
Basic earnings per ordinary share for (loss) / profit attributable to the shareholders of the Company	18	**(EUR 0.000004)**	**EUR 0.000008**
Diluted earnings per ordinary share for (loss) / profit attributable to the shareholders of the Company	18	**(EUR 0.000004)**	**EUR 0.000008**

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Chief Accountant — Chesnokova A.O.

15 October 2010

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 10 to 81.

(in thousands of EUR)

Consolidated Interim Statement of Cash Flows

		Six months ended	
	Note	**30 June 2010**	**30 June 2009**
OPERATING ACTIVITIES			
Profit before income tax		**21,755**	**25,397**
Adjustments to reconcile profit before tax to net cash provided by operations:			
Depreciation and amortisation of property, plant and equipment	24	45,875	40,923
Depreciation and amortisation of investment property	24	233	-
Provision for impairment of accounts receivable	24	382	(831)
Other provisions charge	24	665	1,185
Write off of bad debt which was not previously provided	24	3	144
Impairment of property, plant and equipment	24	-	-
Impairment of investment property	8	(4,502)	-
Share of (profit)/loss of associates and jointly controlled entities	10,6	(21,145)	993
Loss on disposal of property plant and equipment	24	702	853
Foreign exchange (gain) / loss		(5,421)	47,473
Interest income	25	(9,484)	(7,523)
Interest expense	25	47,121	27,198
Government grants / subsidies	23	(47)	-
Option plan	31	2,365	-
Put and call option agreement	17	54,737	-
Other non-cash operations/items		1,329	(12)
Operating cash flows before working capital changes and income tax paid		**134,568**	**135,800**
Decrease / (increase) in inventories		220	(19,250)
Decrease / (increase) in accounts receivable and prepayments		75,202	(9,697)
Decrease / (increase) in value added tax recoverable		6,985	(1,068)
(Increase) / decrease in other current assets		(198,004)	12,925
Decrease / (increase) in other non-current assets		84	(7,202)
Increase in accounts payable and accrued liabilities		81,882	14,763
Increase in pension liabilities		503	33
Decrease in taxes other than on income prepaid and payable, net		(4,682)	(11,523)
Income tax paid		(14,706)	(15,527)
Currency translation effect		(3,949)	(19,894)
Net cash flows received from operating activities		**78,103**	**79,360**

(in thousands of EUR)

Consolidated Interim Statement of Cash Flows (continued)

	Note	Six months ended 30 June 2010	30 June 2009
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	45
Interest received		711	6,905
Purchase of property, plant and equipment and intangible assets		(82,104)	(103,328)
Purchase of subsidiaries and associate entities	6, 10	(3,447)	(5,015)
Settlement of jointly controlled company	10	(105)	-
Purchase of investments	6	-	(1,020)
Proceeds from loans issued		417	11
Loans issued		(18,916)	(20,830)
Dividends received	10,25	297	2,904
Net cash flows used for investing activities		**(103,147)**	**(120,328)**
FINANCING ACTIVITIES			
Proceeds from borrowings		307,220	304,424
Repayment of borrowings		(383,727)	(210,111)
Repayment of lease		(7,327)	(2,011)
Interest paid		(41,307)	(26,802)
Dividends paid	17	(4,342)	(4,967)
Proceeds from treasury shares redemption	31	805	-
Proceeds from issuance of additional shares		650,272	-
Net cash flows received from financing activities		**521,594**	**60,533**
Effect of exchange rate fluctuations on cash and cash equivalents		44,818	(14,166)
Net increase in cash and cash equivalents		**541,368**	**5,399**
Cash and cash equivalents at the beginning of the year		190,196	273,839
Cash and cash equivalents at the end of the period	15	**731,564**	**279,238**

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

15 October 2010

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 10 to 81.

(in thousands of EUR)

Consolidated Interim Statement of changes in equity

	Note	Attributable to shareholders of the Company									Non-controlling interest	Total equity
		Share capital registered	Share capital non-registered	Treasury shares	Share premium	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Accumulated earnings/ (deficit)	Total		
Balance at 1 January 2009		6,165,300	-	(265,756)	-	(189,247)	-	183,837	(4,500,213)	1,393,921	17,810	1,411,731
Total comprehensive (loss)/income for six months ended 30 June 2009		-	-	-	-	(93,087)	1,119	(675)	18,479	(74,164)	(1,353)	(75,517)
Dividends to shareholders	17	-	-	-	-	-	-	-	-	-	(4,967)	(4,967)
Acquisition of non-controlling interest	6	-	-	-	-	-	-	13,456	(8,647)	4,809	(5,829)	(1,020)
		-	-	-	-	-	-	13,456	(8,647)	4,809	(10,796)	(5,987)
Balance at 30 June 2009		6,165,300	-	(265,756)	-	(282,334)	1,119	196,618	(4,490,381)	1,324,566	5,661	1,330,227
Balance at 1 January 2010		1,732,306	-	(74,701)	-	(273,552)	106	438,765	(524,849)	1,298,075	6,232	1,304,307
Total comprehensive (loss)/income for six months ended 30 June 2010		-	-	-	-	189,746	(2,275)	(306)	(8,615)	178,550	4,562	183,112
Dividends to shareholders	17	-	-	-	-	-	-	-	-	-	(4,342)	(4,342)
Additional issue of shares	17	-	454,506	-	195,766	-	-	-	-	650,272	-	650,272
Put and call option agreement	17	-	-	-	103,754	-	-	-	-	103,754	-	103,754
Shares option plan	31	-	-	3,299	-	-	-	-	(165)	3,134	-	3,134
		-	454,506	3,299	299,520	-	-	-	(165)	757,160	(4,342)	752,818
Balance at 30 June 2010		1,732,306	454,506	(71,402)	299,520	(83,806)	(2,169)	438,459	(533,629)	2,233,785	6,452	2,240,237

Chairman of the Management Board — Kovalchuk B.Yu.

Chief Accountant — Chesnokova A.O.

15 October 2010

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 10 to 81.

1 The Group and its operations

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

On 1 May 2008 three of RAO UES's subsidiaries, JSC "Ivanovo Thermal-gas Plant", JSC "North-West Thermal Power Plant" and JSC "RAO UES INTERNATIONAL" were merged into the Company and ceased to exist as separate legal entities. Prior to the merger, JSC "RAO UES INTERNATIONAL" held interests in a number of different subsidiaries and associates that as a result of the merger became direct subsidiaries and associates of the Company.

The above mentioned mergers were business combinations among entities under common control and have been accounted for using the predecessor accounting method.

On 1 July 2008 JSC "INTER RAO UES Holding" was spun off from RAO UES and merged into the Company. JSC "INTER RAO UES Holding" had, amongst other assets, controlling stakes in three other RAO UES subsidiaries, JSC "Kaliningradskaya TEC-2", JSC "Ispytatelniy Stend Ivanovskoy GRES" and JSC "Eastern energy company", that became subsidiaries of the Company as a result of the merger. On the same date one of the subsidiaries, JSC "Kaliningradskaya TEC-2", was merged into the Company. All these three subsidiaries were accounted for in these consolidated financial statements using the predecessor accounting method.

Prior to 1 May 2008 RAO UES owned a 100% interest in the Company. From 1 May to 1 July RAO UES owned a 64.55% interest in the Company. In turn, 52.68% of RAO UES was owned by the Russian Federation.

On 1 July 2008, as part of the electricity industry restructuring process, RAO UES ceased to exist as a separate legal entity.

As a result of the completion of the RAO UES restructuring process the State Corporation Rosatom has obtained control over the Company and its subsidiaries (hereafter the Company together with its subsidiaries – the "Group").

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

As a result of additional issue (see Note 17) the share of the State Corporation Rosatom in Parent company was diluted and as at 30 June 2010 was 33.4%. State Corporation Vnesheconombank held as at 30 June 2010 18.2958% interest in the Group. Both corporations are controlled by the Russian Federation.

The Company operates four power plants located in different regions of Russia and has controlling interests in a number of subsidiaries. The Company's principal subsidiaries as at 30 June 2010 are presented in Note 33.

The Group performs the following types of business activity:

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

At 30 June 2010, the number of employees of the Group was 15,822 (30 June 2009: 15,469).

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

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

The Russian Federation, Georgia, Armenia, Moldova (Transnistria), Kazakhstan, Lithuania, Latvia and Estonia have been experiencing political and economic change that has affected, and may continue to affect, the activities of Group enterprises operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other 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.

1 The Group and its operations (continued)

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

Impact of the global financial and economic crisis. The global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and our assessment of the impairment of non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in their impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of financial markets and the increased volatility in currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

2 Financial conditions

As at 30 June 2010 the amount of current assets of the Group exceeded current liabilities of the Group for EUR 687,194 thousand (as at 31 December 2009: EUR 246,979 thousand).

The Group's financial results for the reporting period are mainly characterized by higher profits from operating activities than in comparative period due to growth in economic activity in the electricity market, expressed in the increase in both prices and demand for electricity in the Russian Federation and in foreign markets. Despite the post-crisis period and volatility of the Russian stock market, where the Company's shares are listed, the actions undertaken by the Group during the reporting period has secured its strong financial position. Management believes that the Group has sufficient access to both short and long-term financing. Management also plans to continue implementation of investment programme to increase the Group's installed capacity, upgrade the equipment, including introduction of energy-efficient and innovative technologies, restore facilities retired during post-Soviet period, and expand its presence in foreign electricity markets.

3 Basis of preparation

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

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

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

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

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

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

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

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

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

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

Impairment provision for accounts receivable

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

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

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

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

3 Basis of preparation (continued)

Revaluation and impairment of property, plant and equipment

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

As at 30 June 2010 a number of significant estimations and assumptions were made relating to the determination of the recoverable amount of the property, plant and equipment and the investment property of CJSC Electrolutch (see Notes 7, 8).

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

Useful lives of property, plant and equipment

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

Any reconsiderations of the useful life of property, plant and equipment by one year would impact future annual depreciation charge by approximately EUR 4.7 million.

Loans and borrowings

As at 30 June 2010 the Group accounts for loans with a nominal value of EUR 71,533 thousand at an amortised cost of EUR 7,798 thousand (31 December 2009: a nominal value – EUR 65,492 thousand: an amortised cost – EUR 6,048 thousand). The amortised cost of these loans (see Note 19 (i)) has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of future capital investments, gas and electricity prices and market rates on similar financial instruments. Changes in any of these conditions or estimates may result in significant adjustments to the future amortised cost.

Tax contingencies

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

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of certain Group entities located in Russia, 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 11 (b).

Changes in presentation.

Segment information

Starting from the year 2010, the Group has changed its accounting estimates regarding the disclosure of segment information: it began to exclude foreign exchange differences and other finance incomes and expenses from calculation of EBITDA for operating segments disclosure (see Note 5). The disclosure for the comparative period ended 30 June 2009 was changed correspondingly.

Starting from the year 2010, the Group began to disclose trading and generation in Russia as a single segment (see Note 5) as CODM analyses operating activities of the Parent company as a whole entity. The comparative information was corrected correspondingly.

Property, plant and equipment

As at 31 December 2009 VAT on advances on capital expenditures in the amount of EUR 1,898 thousand related to CJSC Elektricheskiye seti Armenii, previously included into construction in progress within property plant and equipment, was reclassified to VAT within accounts receivables (see Notes 7, 14).

Netting off the accumulated depreciation due to revaluation as of 31 December 2009 was reversed to opening balances of property plant and equipment in the amount of EUR 1,899 thousand (see Note 7).

Reversal of the accumulated impairment due to revaluation as of 31 December 2009 was grossed-up between impairment loss and revalued amount of property, plant and equipment in the amount of EUR 2,550 thousand (see Note 7).

4 Summary of significant accounting policies

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

Basis of consolidation

Principles of consolidation

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

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

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

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

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

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

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

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

Business combinations

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.

4 Summary of significant accounting policies (continued)

Foreign currency

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

(in thousands of EUR)

4 Summary of significant accounting policies (continued)

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

Investment properties

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

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

Depreciation on investment property is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The useful life for buildings for rent out purposed equalled to 58 years.

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

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

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

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

Intangible assets

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

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

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

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

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

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

Leased assets

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

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

Available-for-sale investments

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

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

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

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

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

Derivative financial instruments and hedging activities

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

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

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

4 Summary of significant accounting policies (continued)

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

Foreign currency forward exchange contracts (foreign currency forwards)

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

Electricity derivatives

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

Options

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

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

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

Inventories

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

Cash and cash equivalents

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

Accounts receivable

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

Prepayments

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

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.

4 Summary of significant accounting policies (continued)

Value added tax on purchases and sales

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

Impairment

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

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

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

All impairment losses are recognised in profit and loss.

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

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

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

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

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

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

Employee benefits

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

4 Summary of significant accounting policies (continued)

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

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

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

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

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

Borrowings

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

Government grants

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

Provisions

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

Environmental liabilities

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

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.

4 Summary of significant accounting policies (continued)

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

Share premium

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

Revenue

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

Operating expenses

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

Finance income

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

Finance expenses

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

Income tax expense

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

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

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.

4 Summary of significant accounting policies (continued)

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

Fair value of financial instruments

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

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

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

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

If the fair value can not 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 are provided in Note 26.

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.

New accounting pronouncements and revised standards

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

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

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

- *IFRS 3, 'Business Combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, that is from January 2010).* The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing

4 Summary of significant accounting policies (continued)

IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquiree will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendments to have any material effect on its financial statements.

- *IAS 27, 'Consolidated and Separate Financial Statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009, that is from January 2010).* The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The interim financial statements have been prepared under the revised disclosure requirements.

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

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

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

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

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

4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

5 Segment information

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

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

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

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

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

For the segment information reviewed by the CODM for the period ended 30 June 2010 the Group activities (generation and trading) attributable to the geographical segment – Russia, were represented jointly in management accounting. For the purpose of comparability the same information was provided for the six months ended 30 June 2009 and the year ended 31 December 2009 – the segments attributable to the activities Generating Russia and Trading Russia were disclosed a combined segment Generation and Trading Russia.

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

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

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

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

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

(in thousands of EUR)

5 Segment information (continued)

Six months ended 30 June 2010

	Generation and Trading	Trading	Distribution	Distribution	Generation	Generation	Other	Unallocated	Total
	Russia	Finland	Georgia	Armenia	Moldavia	Kazakhstan			
Total revenue	**698,493**	**151,889**	**51,085**	**94,362**	**72,019**	**68,285**	**124,872**	**(207,453)**	**1,053,552**
Revenue from external customers	498,556	151,889	51,085	94,178	72,019	67,793	118,032	-	1,053,552
Inter-segment revenue	199,937	-	-	184	-	492	6,840	(207,453)	-
Purchased electricity and capacity	(410,970)	(131,854)	(17,999)	(44,791)	(7,037)	(451)	(91,744)	206,316	(498,530)
Fuel expenses	(75,991)	-	-	-	(42,891)	(11,781)	(8,193)	-	(138,856)
Share of (loss)/profit of associate and jointly controlled entities	-	-	-	-	-	-	-	-	-
EBITDA	**78,854**	**2,142**	**15,776**	**22,706**	**12,380**	**37,512**	**11,606**	**(519)**	**180,457**
Depreciation and amortisation of property, plant and equipment and intangible assets	(37,903)	(12)	(2,306)	(3,229)	(2,215)	(5,380)	(2,084)	-	(53,129)
Interest income	-	6	111	43	-	1,118	716	3,965	5,959
Interest expense	(3,675)	-	(1,347)	1,595	(165)	(1,574)	(632)	(35,394)	(41,192)

Six months ended 30 June 2009

	Generation and Trading	Trading	Distribution	Distribution	Generation	Generation	Other	Unallocated	Total
	Russia	Finland	Georgia	Armenia	Moldavia	Kazakhstan			
Total revenue	**523,218**	**100,605**	**50,563**	**95,216**	**80,169**	**32,379**	**44,917**	**(107,398)**	**819,669**
Revenue from external customers	428,454	100,605	50,563	95,018	80,169	32,379	32,481	-	819,669
Inter-segment revenue	94,764	-	-	198	-	-	12,436	(107,398)	-
Purchased electricity and capacity	(310,945)	(88,489)	(19,185)	(47,489)	(8,551)	(110)	(24,416)	107,363	(391,822)
Fuel expenses	(58,178)	-	-	-	(47,872)	(6,896)	(8,739)	-	(121,685)
Share of (loss)/profit of associate and jointly controlled entities	-	-	-	-	-	-	(190)	53	(137)
EBITDA	**66,858**	**623**	**16,336**	**19,404**	**17,018**	**10,606**	**2,489**	**287**	**133,621**
Depreciation and amortisation of property, plant and equipment and intangible assets	(31,801)	(16)	(1,259)	(4,763)	(2,093)	(4,514)	(1,957)	-	(46,403)
Interest income	3	-	53	-	-	293	1,460	5,904	7,713
Interest expense	(26)	-	(747)	(2,521)	(555)	(339)	(85)	(22,384)	(26,657)

(in thousands of EUR)

5 Segment information (continued)

As at 30 June 2010

	Generation and Trading	Trading	Distribution	Distribution	Generation	Generation	Other	Unallocated	Total
	Russia	Finland	Georgia	Armenia	Moldavia	Kazakhstan			
Total assets, including:	**2,615,825**	**9,025**	**98,246**	**245,730**	**165,325**	**400,352**	**315,790**	**149,780**	**4,000,073**
Property, plant and equipment	1,629,928	85	71,455	170,373	74,424	324,755	122,480	-	2,393,500
Goodwill	-	-	-	-	-	-	-	26,142	26,142
Investments in associate and jointly controlled entities	-	-	-	-	-	-	774	78,779	79,553
Total liabilities, including:	**1,131,773**	**4,061**	**47,289**	**127,060**	**8,797**	**97,177**	**49,546**	**564,531**	**2,030,234**
Loans and borrowings	28,358	-	21,124	83,922	-	39,874	23,464	564,531	761,273
Capital expenditure	**137,739**	**-**	**8,005**	**34,365**	**4,066**	**2,557**	**9,713**	**-**	**196,445**

As at 31 December 2009

	Generation and Trading	Trading	Distribution	Distribution	Generation	Generation	Other	Unallocated	Total
	Russia	Finland	Georgia	Armenia	Moldavia	Kazakhstan			
Total assets, including:	**1,763,026**	**15,044**	**89,730**	**211,945**	**140,917**	**223,185**	**278,767**	**101,974**	**2,824,588**
Property, plant and equipment	1,343,568	97	60,060	145,470	64,311	197,304	101,826	-	1,912,636
Goodwill	-	-	-	-	-	-	-	32,591	32,591
Investments in associate and jointly controlled entities	-	-	-	-	-	-	297	64,269	64,566
Total liabilities, including:	**118,164**	**9,326**	**46,741**	**106,798**	**14,499**	**58,222**	**60,103**	**580,540**	**994,393**
Loans and borrowings	31,283	4	17,993	63,497	7,567	33,752	22,946	580,540	757,582
Capital expenditure	**312,118**	**-**	**9,078**	**51,611**	**9,357**	**22,312**	**21,370**	**-**	**425,846**

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

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

(in thousands of EUR)

5 Segment information (continued)

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

	Six months ended	
	30 June 2010	**30 June 2009**
Revenue for reportable segments	**1,053,552**	**819,669**
JSC Stantsiya Ekibastuzskaya GRES-2	(67,793)	(32,188)
Gross versus net presentation of revenue under IFRS	(21,517)	(8,432)
Other income included in revenue under Management accounting	(17,041)	652
Other adjustments	(253)	(3,450)
Revenue per Consolidated Interim Statement of Comprehensive Income	**946,948**	**776,251**
Deprecation and amortisation for reportable segments	**53,129**	**46,403**
JSC Stantsiya Ekibastuzskaya GRES-2	(5,380)	(4,514)
Difference in depreciation, due to different value of assets under IFRS and Management accounting	(2,455)	(1,250)
Amortisation of intangible assets of the Parent company	692	478
Depreciation of investment property	233	-
Other adjusments	(111)	(194)
Deprecation and amortisation per Consolidated Interim Statement of Comprehensive Income	**46,108**	**40,923**
Share of profit/(loss) of associates and jointly controlled entities for reportable segments	**-**	**(137)**
JSC Stantsiya Ekibastuzskaya GRES-2	12,916	(1,063)
JSC TGK-11	8,095	-
Other adjustments	134	207
Share of profit/(loss) of associates and jointly controlled entities per Consolidated Interim Statement of Comprehensive Income	**21,145**	**(993)**
EBITDA for reportable segments	**180,457**	**133,621**
JSC Stantsiya Ekibastuzskaya GRES-2	(24,596)	(11,452)
Share of profit of associates	5,541	-
Reclassification between other operating and financial income/expenses	3,819	(3,202)
Parent company bonuses charged	(3,247)	-
Share based payments	(2,365)	-
Inventory write-off	(1,895)	-
Provision for impairment of accounts receivable	1,185	(1,670)
Depreciation of property, plant and equipment, unrecordered in segment reporting	1,063	463
Other adjustments	(1,130)	(2,081)
EBITDA per Consolidated Interim Statement of Comprehensive Income	**158,832**	**115,679**
Finance Income / Expense	(95,471)	(49,359)
Deprecation and amortisation per consolidated statement of comprehensive income	(46,108)	(40,923)
Reverse of impairment of investment property	4,502	-
Profit before income tax per Interim Consolidated Interim Statement of Comprehensive Income	**21,755**	**25,397**

(in thousands of EUR)

5 Segment information (continued)

	30 June 2010	31 December 2009
Total assets for reportable segments	**4,000,073**	**2,824,588**
Difference in measurement of property, plant and equipment (results of revaluation and application of IFRS 1)	(332,239)	(379,372)
JSC Stantsiya Ekibastuzskaya GRES-2	(248,832)	(107,073)
Fair value adjustments of CJSC Electrolutch on acquisition	98,074	86,316
Put&Call option recognition	49,017	-
Equity accounting of associates and jointly controlled entities	46,253	35,249
Write-off of financial instruments (mostly related to previous periods)	(42,189)	(35,912)
IFRS adjustment on accrual of deferred taxes	15,769	61,431
Provision for impairment of accounts receivable	(12,229)	(8,181)
Interest capitalized	(5,291)	(2,872)
Discounting of accounts payable and receivable	(6,958)	(4,755)
Deferred expenses write-off	(4,847)	(4,035)
Reverse of impairment of Investment property	4,502	-
Impairment of loans given to Khrami I, II	(4,090)	(3,585)
Impairment of Goodwill from UAB INTER RAO Lietuva acquisition	-	(6,449)
Gross-up of accounts payable/receivable	-	(6,421)
Impairment of investment in JSC Sangtudinskaya GES-1	(150)	(132)
Other adjustments	409	(1,364)
Total assets per Consolidated Interim Statement of Financial Position	**3,557,272**	**2,447,433**

Investments in associates and jointly controlled entities for reportable segments	**79,553**	**64,566**
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting	151,520	116,111
Investments in JSC TGK-11 by equity accounting	46,867	35,516
Other adjustments	42	(70)
Investments in associates and jointly controlled entities per Consolidated Interim Statement of Financial Position	**277,982**	**216,123**

Total liabilities for reportable segments	**2,030,234**	**994,393**
Share capital issue	(651,551)	-
Direct financing from JSC "Mejregionenergostroy"	-	216,701
Investment in JSC Stantsiya Ekibastuzskaya GRES-2 by equity accounting	(68,383)	(36,328)
Discounting effect of loans	(9,245)	(13,988)
IFRS adjustment on accrual of deferred taxes	5,637	(11,661)
Bonus charges	3,400	-
Gross-up accounts payable/receivable	-	(6,421)
Parent company pension liabilities	3,582	3,078
Unused vacation provision	2,882	1,914
Equity accounting of associates and jointly controlled entities	1,599	1,030
Recognition of external payables	-	(2,128)
Other adjustments	(1,120)	(3,464)
Total liabilities per Consolidated Interim Statement of Financial Position	**1,317,035**	**1,143,126**

(in thousands of EUR)

5 Segment information (continued)

Information about geographical areas

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

	Six months ended 30 June 2010			Six months ended 30 June 2009		
	Revenue in the Group entity's jurisdiction[1]	Revenue in countries other than Group entity's jurisdiction	Total revenue based on location of customers	Revenue in the Group entity's jurisdiction[1]	Revenue in countries other than Group entity's jurisdiction	Total revenue based on location of customers
Russian Federation	332,705	-	332,705	240,706	-	240,706
Finland (incl. NordPool)	29,351	234,851	264,202	15,017	172,613	187,630
Armenia	93,624	-	93,624	91,005	-	91,005
Lithuania	77,000	-	77,000	13,685	-	13,685
Moldova (incl. Transdniestria Republic)	5,351	59,402	64,753	4,591	62,345	66,936
Georgia	60,459	2,456	62,915	58,992	5,367	64,359
Belarus	-	162	162	-	65,216	65,216
Other	8,446	43,141	51,587	355	46,359	46,714
Kazakhstan	*8,446*	*8,089*	*16,535*	*352*	*10,768*	*11,120*
China	-	*13,726*	*13,726*	-	*6,069*	*6,069*
Romania	-	*6,630*	*6,630*	-	*13,039*	*13,039*
Latvia	-	*6,529*	*6,529*	-	*11,683*	*11,683*
Mongolia	-	*4,393*	*4,393*	-	*2,416*	*2,416*
Other	-	*3,774*	*3,774*	*3*	*2,384*	*2,387*
TOTAL	**606,936**	**340,012**	**946,948**	**424,351**	**351,900**	**776,251**

	Total non-current assets based on location of assets[2]	
	As at 30 June 2010	As at 31 December 2009
Russian Federation	1,455,090	1,238,001
Finland (incl. NordPool)	27,636	27,649
Armenia	194,609	135,134
Georgia	91,634	82,995
Moldova (incl. Transdniestria Republic)	129,101	109,064
Other	18,009	16,000
Kazakhstan	*1,033*	893
Turkey	*120*	120
Lithuania	*388*	695
Other	*16,468*	14,292
TOTAL	**1,916,079**	**1,608,843**

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

(in thousands of EUR)

6 Acquisitions and disposals

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

Acquisition of CJSC Electrolutch

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

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

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

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

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

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

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

Acquisition of JSC TGK-11

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

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

(in thousands of EUR)

6 Acquisitions and disposals (continued)

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

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

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

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

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

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

In March 2010 the Group made a mandatory offer to other shareholders of JSC TGK-11 to purchase 345 billion of shares of JSC TGK-11 (67.31%) with a price of RUR 0.0167 per a share. As a result of the mandatory offer 13 501 992 or 0.09% of shares of JSC TGK-11 were purchased by the Group for a total consideration of RUR 8.8 million (EUR 219 thousand). Fair values of assets and liabilities arising from the acquisition equalled to EUR 298 thousand. As a result of the purchase negative goodwill amounting to EUR 79 thousand was recognised in share of profit of associates and jointly controlled entities in the consolidated statement of comprehensive income.

Thus, as at 30 June 2010 the Group has 32.78% of JSC TGK-11 in ownership and 16.25% under trust management.

Acquisition of LLP Kazenergoresurs and LLP Nedra Kazakhstana

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

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

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

6 Acquisitions and disposals (continued)

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

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

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

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

Disposal of the Group entities

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

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

(in thousands of EUR)

7 Property, plant and equipment

	Land and buildings	Constructions	Plant and equipment	Other	Constructions in progress	Total
Cost/Revalued amount						
Balance at 31 December 2008	**264,664**	**194,869**	**688,971**	**52,320**	**241,061**	**1,441,885**
Changes in presentation	-	-	-	-	(31)	(31)
Balance at 1 January 2009	**264,664**	**194,869**	**688,971**	**52,320**	**241,030**	**1,441,854**
Additions	16	3	3	111	92,425	92,558
Transfers	810	5,742	6,777	2,771	(16,100)	-
Disposals	(499)	(245)	(202)	(588)	(2,043)	(3,577)
Translation difference	(10,685)	(15,661)	(35,314)	(2,926)	(14,884)	(79,470)
Balance at 30 June 2009	**254,306**	**184,708**	**660,235**	**51,688**	**300,428**	**1,451,365**
Including PPE under finance lease	-	1,925	45,819	219	-	47,963
Balance at 31 December 2009	**303,626**	**165,376**	**555,061**	**39,856**	**244,770**	**1,308,689**
Changes in presentation	-	-	-	-	(1,898)	(1,898)
Gross-up	(2,175)	(56)	1,217	363	-	(651)
Balance at 1 January 2010	**301,451**	**165,320**	**556,278**	**40,219**	**242,872**	**1,306,140**
Reclassification	(5)	-	7	1	(3)	-
Additions	11	16	14	85	86,092	86,218
Transfers	1,651	6,999	12,334	3,456	(24,440)	-
Disposals	(70)	(202)	(477)	(175)	(462)	(1,386)
Translation difference	41,535	26,816	79,178	5,748	41,053	194,330
Balance at 30 June 2010	**344,573**	**198,949**	**647,334**	**49,334**	**345,112**	**1,585,302**
Including PPE under finance lease	-	3,538	45,422	45	-	49,005
Depreciation and impairment losses						
Balance at 1 January 2009	**(24,119)**	**(18,953)**	**(129,541)**	**(12,009)**	**(159)**	**(184,781)**
Reclassification	-	5	(5)	-	-	-
Depreciation charge	(3,183)	(4,005)	(29,370)	(3,529)	-	(40,087)
Disposals	118	22	42	133	-	315
Translation difference	576	1,995	5,745	720	23	9,059
Balance at 30 June 2009	**(26,608)**	**(20,936)**	**(153,129)**	**(14,685)**	**(136)**	**(215,494)**
Including PPE under finance lease	-	(252)	(11,055)	(104)	-	(11,411)
Balance at 31 December 2009	**(2,427)**	**(78)**	**(304)**	**(668)**	**2**	**(3,475)**
Gross-up	2,175	56	(1,217)	(363)	-	651
Balance at 1 January 2010	**(252)**	**(22)**	**(1,521)**	**(1,031)**	**2**	**(2,824)**
Reclassification	1	7	(3)	(3)	(2)	-
Depreciation charge	(4,188)	(5,864)	(32,182)	(2,681)	-	(44,915)
Disposals	3	8	9	79	-	99
Translation difference	(278)	(451)	(1,910)	(262)	-	(2,901)
Balance at 30 June 2010	**(4,714)**	**(6,322)**	**(35,607)**	**(3,898)**	**-**	**(50,541)**
Including PPE under finance lease	-	(241)	(3,042)	(23)	-	(3,306)
Net book value						
At 30 June 2009	**227,698**	**163,772**	**507,106**	**37,003**	**300,292**	**1,235,871**
At 31 December 2009	**301,199**	**165,298**	**554,757**	**39,188**	**242,874**	**1,303,316**
At 30 June 2010	**339,859**	**192,627**	**611,727**	**45,436**	**345,112**	**1,534,761**

7 Property, plant and equipment (continued)

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

The category Land and buildings includes land in the amount of EUR 9,723 thousand (31 December 2009: EUR 8,495 thousand).

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operations and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to EUR 38,610 thousand (including EUR 23,258 thousand for JSC "INTER RAO UES" and EUR 8,533 thousand for JSC Elektricheskiye seti Armenii) as at 30 June 2010 (31 December 2009: EUR 42,522 thousand).

(a) Revaluation and impairment

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

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 performed during revaluation of the property, plant and equipment performed by the Group as at 31 December 2009 were renewed in accordance with the changes in the key assumptions used for the revaluation during the next six months. Further details on the key assumptions are set out below.

JSC INTER RAO UES

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

For the branches North-West Thermal Power Plant and Kaliningradskaya TEC-2 it was confirmed that estimated results for the year 2010 are based on actual figures available as at 30.06.2010, macroeconomics indicators and future estimations are in line with key assumptions used during the revaluation of the proprety, plant and equipment performed as at 31.12.2009, therefore no impairment indicators were revealed.

For the branches Sochinskaya TPS and Ivanovo Thermal-gas Plant the estimated electricity generation volume for the year 2010 based on actual figures available as at 30 June 2010 were lower than figures used in revaluation of the property, plant and equipment performed as at 31.12.2009. The key reason is unexpected long-time repairs happened during first half of 2010 year.

To assess the recoverable amount of property, plant and equipment of those branches the full scope profitability test was performed. The following key assumptions were used:

- Applied WACC discount rate was 13.43% per annum (as at 31 December 2009 – 13.4%);
- Regulated electricity sales tariffs and electricity market prices are expected to increase by 12%-23% per annum for the period 2011-2016 and 5%-4% subsequently;
- Gas purchase prices are expected to increase by 12%-23% per annum for the period 2011-2016 years and 5%-4% subsequently;
- Capacity prices are expected to increase by 5%-6% per annum for the period 2011-2016 years and 5%-4% subsequently;

As a result of the profitability test there was no impairment revealed for branches Sochinskaya TPS and Ivanovo Thermal-gas Plant.

CJSC Elecrolutch

As at 30 June 2010 the Group performed an assessment of the recoverable amount of the property plant and equipment and the investment properties of CJSC Electrolutch. For this purpose the following key assumptions were used in the profitability test:

- The forecast period was 6 years;
- The initial base rental fee is USD 800 per square meter with subsequent growth of 5%-8% per annum;
- The expected portion of rental area utilisation applied in the forecast equalled 31% as at 30 June 2010 and further increases to 95% in the second quarter of 2012. After 2011 full utilisation is expected;

(in thousands of EUR)

7 Property, plant and equipment (continued)

- The discount rate used for construction period was assessed at the level of 25% – 35%; for the period of operations the discount rate of 14% was applied;
- The capitalisation rate used for the calculation of the terminal value was 10%.

Based on the assumptions described above, management identified no indicators of impairment of property, plant and equipment.

JSC Moldavskaya GRES

As at 30 June 2010 the Group performed an assessment of the recoverable amount of property, plant and equipment of JSC Moldavskaya GRES, one of the Group subsidiaries. During the period ended 30 June 2010 JSC Moldavskaya GRES operated at approximately 19% of its operating capacity and recognised revenue in the amount of EUR 66,128 thousand. Management is actively seeking new distribution markets for this entity.

As a result of the assessment management concluded that, although there had been some deteriorations in short term trading at the subsidiary, given expectations as to long term trading, these short term effects were not sufficient to require the recognition of any impairment of the assets.

However, in August 2010 President Decree was issued stating the increase of tariff on gas purchase by 15.9% starting from 1 January 2011. Since this change comprises of tariff increase nominated in national currency and all of export contracts are nominated in USD management has a strong confidence that overall influence of these changes on financial position will be minimized:

- JSC Moldavskaya GRES carries out negotiations on amendments to President Decree;
- Management has assessed as probable that the fixed domestic exchange rate of USD to national currency will be linked to market level and corresponding decrease will eliminate increase of tariff nominated in national currency.

Had any impairment provision been calculated based solely on the existing trading level and pricing, an additional impairment provision of approximately EUR 28,737 thousand would have been recognised in the Consolidated Interim Statement of Comprehensive Income for the period ended 30 June 2010.

Other entities

For the purposes of the assessment of the recoverable amount of the property, plant and equipment of JSC Electricheskiye seti Armenii, Mtkvari Energy LLC and JSC Telasi it was confirmed that estimated results as well as macroeconomics indicators and future estimations for the year 2010 used in the profitability tests for the purposes of the revaluation performed as at 31 December 2009 are in line with actual figures available as at 30.06.2010, therefore no impairment indicators were revealed.

(b) Security

Properties as at 30 June 2010 with a carrying amount of EUR 3,731 thousand (31 December 2009: EUR 3,087 thousand) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several of its loans.

8 Investment properties

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

At 1 January 2010	**56,241**
Additions	1,202
Recover of impairment recognized in previous period	4,502
Depreciation charge	(233)
Translation difference	7,707
At 30 June 2010	**69,419**

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

(in thousands of EUR)

8 Investment properties (continued)

(a) Deemed cost

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

Investment properties with a carrying value of EUR 31,637 thousand represent two buildings fully completed and in use as at 30 June 2010 (as at 31 December 2009 EUR 24,866 thousand). Investment properties with a carrying value of EUR 37,782 thousand as at 30 June 2010 (as at 31 December 2009 EUR 31,375 thousand) represent five buildings under construction which, in accordance with the amendment made to IAS 40 "Investment Property" effective since 1 January 2009, were classified as investment property.

As at 30 June 2010 the amount of fair market value of the investment properties is equal to EUR 46,741 thousand (as at 31 December 2009: EUR 48,954 thousand).

(b) Impairment

As at 30 June 2010 the Group performed an assessment of the recoverable amount of the investment properties of CJSC Electrolutch. The key assumptions used for this purpose are described in the note 7 with regard to CJSC Electrolutch.

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

The recoverable amounts of buildings 1, 3, 4 were higher than their net book value. The impairment loss recognised in respect of these buildings as at 31 December 2009 in the amount of EUR 4,520 thousand was recovered as at 30 June 2010. The recoverable amount of building 2 is lower than their net book value. The impairment loss of EUR 18 thousand was recognised as at 30 June 2010 in respect of that building. The recoverable amounts of the buildings 6, 7 according to the applied assumptions are comparable to their net book value. Therefore no impairment loss or reversal of prior period impairment loss was recognised in respect of these buildings. The total result of EUR 4,502 thousand of income was recognised in the consolidated statement of comprehensive income as at 30 June 2010 (see Note 24).

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

Total rental income received from the investment property for the six months of 2010 year was EUR 2,017 thousand. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

Not later than 1 year	2,940
Later than 1 year and not later than 5 years	8,276
Later than 5 years	2,471
Total operating lease payments receivable	**13,687**

As at 30 June 2010 three long-term and three short-term rental agreements were signed in respect of the investment properties. Although the contracts were concluded for periods up to 2018, the rental payments due under the agreement are set in accordance with additional agreements and only for periods up to two years.

As at 30 June 2010 the Group has contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements, amounting to EUR 16,519 thousand (as at 31 December 2009: EUR 6,454 thousand).

(in thousands of EUR)

9 Intangible assets

	Goodwill	Software	Other	Total
Cost				
Balance at 1 January 2009	34,247	6,703	410	41,360
Additions	-	1,274	200	1,474
Disposals	-	(84)	-	(84)
Translation difference	(14)	(540)	(14)	(568)
Balance at 30 June 2009	**34,233**	**7,353**	**596**	**42,182**
Balance at 1 January 2010	35,694	8,501	497	44,692
Reclassification of cost from other intangible to software	-	39	(39)	-
Additions	-	908	13	921
Translation difference	228	1,306	58	1,592
Balance at 30 June 2010	**35,922**	**10,754**	**529**	**47,205**
Amortisation and impairment				
Balance at 1 January 2009	-	(2,077)	(153)	(2,230)
Amortisation charge	-	(726)	(110)	(836)
Disposals	-	84	-	84
Translation difference	-	159	7	166
Balance at 30 June 2009	**-**	**(2,560)**	**(256)**	**(2,816)**
Balance at 1 January 2010	(7,917)	(3,314)	(298)	(11,529)
Reclassification of Amortization from other intangible to software	-	(31)	31	-
Amortisation charge	-	(901)	(59)	(960)
Disposals	-			-
Translation difference	(200)	(560)	(39)	(799)
Balance at 30 June 2010	**(8,117)**	**(4,806)**	**(365)**	**(13,288)**
Net book value				
At 30 June 2009	**34,233**	**4,793**	**340**	**39,366**
At 31 December 2009	**27,777**	**5,187**	**199**	**33,163**
At 30 June 2010	**27,805**	**5,948**	**164**	**33,917**

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

The carrying value of goodwill as at 30 June 2010 comprised goodwill which arose on the acquisition of Energospetsserviceobslyzhivanie in 2005 in the amount of EUR 257 thousand; on the acquisition of UAB INTER RAO Lietuva (ex. ERC) in 2008 in the amount of EUR 33,997 thousand and on the acquisition of LLP Kazenergoresurs in 2009 in the amount of EUR 1,668 thousand.

The accumulated impairment of goodwill represents the loss caused by the impairment of recoverable amount of the goodwill arose on the acquisition of UAB INTER RAO Lietuva in the amount of EUR 6,449 thousand and LLP Kazenergoresurs in the amount of EUR 1,668 thousand recognized as at 31 December 2009.

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

As at 30 June 2010 the Group carried out an impairment test on the goodwill related to CJSC INTER RAO Lietuva. For the purpose of impairment testing the goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit.

The impairment test was based on the following key assumptions:

- UAB INTER RAO Lietuva is carrying out trading operations with electricity, including import deliveries from electricity system of the Russian Federation to the electricity market of the Lithuanian Republic and export deliveries from the electricity market of the Lithuanian Republic to other countries of Baltic region;

(in thousands of EUR)

9 Intangible assets (continued)

- Starting from 2010, the electricity market of the Lithuanian Republic experiences significant changes due to the closure of the Ignalina Nuclear Power Plant with effect from the end of 2009. The Ignalina plant was the main electricity generating facility within Lithuania and the Baltic region, providing up to 70% of electricity generation in that region. The electricity deficit arising due to the closure of Ignalina plant will be covered partially by additional production by the Lithuanian power stations and partially by additional imports to the Lithuanian electricity system from the neighbour systems, mostly from the electricity system of the Russian Federation, which have considerable export potential. According to electricity demand projections, the demand would increase annually at average rate of 3% and would reach approximately 9.9 GWth by the year 2019, from the current level of approximately 8.0 GWth. It is expected that starting from the year 2010 till the year 2019 the annual volume of electricity imported to Lithuania would grow to 6 GWth, and that 81% of that volume could be covered by deliveries carried out by CJSC INTER RAO Lietuva;
- This volume of deliveries is assumed to provide gross margin of 9.8%, as the above mentioned volume allows ERC to carry out electricity sales in peak periods, when higher profitability is achieved;
- The discount factor used for the impairment test performed by management was 17.6% (as at 31 December 2009 - 17.9%).

Based on the assumptions described above, management considers that as at 30 June 2010 there are no indicators of its impairment.

10 Investments in associates and jointly controlled entities

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

			Voting	
	Status	**Country**	**30 June 2010**	**30 June 2009**
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.00%	50.00%
UAB Alproka	Associate	Lithuania	49.99%	49.99%
JSC "Kambarata HPP-1"	Jointly controlled entity	Kyrgyz Republic	50.00%	50.00%
JSC "Industrial Power Company"	Jointly controlled entity	Russian Federation	50.00%	50.00%
JSC TGK-11	Associate	Russian Federation	32.78%	-
LLC Interenergoeffect	Jointly controlled entity	Russian Federation	50.00%	-

(in thousands of EUR)

10 Investments in associates and jointly controlled entities (continued)

	Stantsiya Ekibastuzskaya GRES-2	JSC TGK-11	JSC Kambarata HPP-1	UAB Alproka	LLC Interenergoeffect	JSC Industrial Power Company	Total
Carrying value at 1 January 2009	**104,626**	**-**	**-**	**163**	**-**	**28**	**104,817**
Additions	-	-	662	-	-	-	**662**
Share of revaluation of property,plant and equipment and other related equity movements	(648)	-	-	-	-	-	**(648)**
Share of (loss) / profit after tax	(1,063)	-	-	97	-	(27)	**(993)**
Dividends received from associates	(2,904)	-	-	-	-	-	**(2,904)**
Translation difference	(19,599)	-	(3)	-	-	(1)	**(19,603)**
Carrying value 30 June 2009	**80,412**	**-**	**659**	**260**	**-**	**-**	**81,331**
Carrying value at 1 January 2010	**116,111**	**99,104**	**644**	**264**	**-**	**-**	**216,123**
Additions	-	9,546	-	-	105	-	**9,651**
Share of profit after tax	12,916	1,996	32	33	-	69	**15,046**
Dividends received from associates	-	-	-	(297)	-	-	**(297)**
Translation difference	22,493	14,895	77	-	-	(6)	**37,459**
Carrying value at 30 June 2010	**151,520**	**125, 541**	**753**	**0**	**105**	**63**	**277,982**

JSC Stantsiya Ekibastuzskaya GRES-2

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

	Six months ended 30 June 2010	Twelve months ended 31 December 2009	Six months ended 30 June 2009
Non-current assets	324,965	277,247	200,874
Current assets	75,204	25,590	23,875
Non-current liabilities	(76,978)	(65,778)	(58,800)
Current liabilities	(20,151)	(4,837)	(5,126)
Revenue	68,272	65,418	32,188
Profit for the period	25,832	4,258	(2,126)

(in thousands of EUR)

10 Investments in associates and jointly controlled entities (continued)

JSC TGK-11

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

	Six months ended 30 June 2010	Since the date of acquisition to 31 December 2009
Non-current assets	458,350	404,370
Current assets	83,156	81,926
Non-current liabilities	(78,624)	(66,672)
Current liabilities	(79,901)	(88,172)
Revenue	265,384	97,508
Profit for the period	6,089	10,043

As at 30 June 2010 fair value of the Group share in the net assets of JSC TGK-11 based on market quotations of the shares equalled to EUR 73,517 thousand (as at 31 December 2009: EUR 63,259 thousand).

JSC Industrial Power Company

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

	Six months ended 30 June 2010	Twelve months ended 31 December 2009	Six months ended 30 June 2009
Non-current assets	99	119	138
Current assets	42	2	8
Current liabilities	(15)	(137)	(198)
Revenue	-	136	67
Loss for the period	139	(69)	(104)

UAB Alproka

The following is summarised financial information in respect of UAB Alproka:

	Six months ended 30 June 2010	The year ended 31 December 2009	Six months ended 30 June 2009
Non-current assets	59	66	109
Current assets	796	1,320	2,177
Current liabilities	(1,044)	(354)	(1,268)
Revenue	970	2,091	1,509
Profit for the period	(64)	394	376

JSC "Kambarata HPP-1"

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

(in thousands of EUR)

10 Investments in associates and jointly controlled entities (continued)

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

	Six months ended 30 June 2010	Since the date of settlement to December 2009	Since the date of settlement to 30 June 2009
Non-current assets	-	-	-
Current assets	1,519	1,291	1,318
Current liabilities	(12)	(3)	-
Profit for the period	65	30	-

LLC Interenergoeffect

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

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

	Six months ended 30 June 2010
Current assets	209
Current liabilities	-
Profit for the period	-

11 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following:

	Deferred Tax Assets		Deferred Tax Liabilities	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Property, plant and equipment	20,148	20,452	(14,153)	(12,494)
Investment property	-	-	(8,974)	(7,448)
Investments in associates and jointly controlled entities	-	-	(30,408)	(22,927)
Other non-current assets	-	-	(9,830)	-
Trade and other receivables	5,884	6,486	-	-
Tax loss carry-forwards	2,173	789	954	329
Other	7,635	5,997	(659)	(365)
Tax assets/(liabilities)	**35,840**	**33,724**	**(63,070)**	**(42,905)**
Set off of tax	(9,187)	(7,424)	9,187	7,424
	26,653	**26,300**	**(53,883)**	**(35,481)**

(b) Unrecognised deferred tax assets

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

	30 June 2010	31 December 2009
Deductible temporary differences	23,551	16,714
	23,551	**16,714**

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

(in thousands of EUR)

11 Deferred tax assets and liabilities (continued)

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

Deferred tax assets:

	1 January 2009	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Hedging reserve)	30 June 2009
Property, plant and equipment	3,551	(974)	(129)	-	2,448
Investment in associate and jointly controlled entity	36	(28)	(2)	-	6
Trade and other receivables	3,091	(62)	5	-	3,034
Other items	994	50	29	222	1,295
Tax loss carry-forwards	1,090	(1,078)	(12)	-	-
	8,762	**(2,092)**	**(109)**	**222**	**6,783**

	1 January 2010	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Hedging reserve)	30 June 2010
Property, plant and equipment	15,275	(5,859)	2,550	-	11,966
Trade and other receivables	5,273	(197)	676	-	5,752
Other items	5,752	106	809	543	7,210
Tax loss carry-forwards	-	1,605	120	-	1,725
	26,300	**(4,345)**	**4,155**	**543**	**26,653**

Deferred tax liabilities:

	1 January 2009	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	30 June 2009
Property, plant and equipment	(8,393)	1,183	738	-	(6,472)
Investment in associate and jointly controlled entity	(19,534)	794	3,843	130	(14,767)
Other items	4,884	(891)	(358)	-	3,635
	(23,043)	**1,086**	**4,223**	**130**	**(17,604)**

	1 January 2010	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (Revaluation reserve)	30 June 2010
Property, plant and equipment	(7,319)	2,619	(1,271)	-	(5,971)
Investment property	(7,449)	(488)	(1,038)	-	(8,975)
Investment in associate and jointly controlled entity	(22,926)	(3,154)	(4,328)	-	(30,408)
Other non-current assets	-	(9,830)	-		(9,830)
Other items	2,213	(946)	34	-	1,301
	(35,481)	**(11,799)**	**(6,603)**	**-**	**(53,883)**

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

A deferred tax asset in the amount of EUR 543 thousand was recognised in other comprehensive income in relation to the hedge reserve recognised in the Parent company as at 30 June 2010 (for the six months ended 30 June 2009: EUR 222 thousand).

A deferred tax liability in the amount of EUR 9,830 thousand was recognised in profit and loss within deferred tax expense (see Note 26) in relation to the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 17).

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

(in thousands of EUR)

11 Deferred tax assets and liabilities (continued)

and does not intend to reverse them in the foreseeable future. As at 30 June 2010 and 31 December 2009, temporary tax differences amounted to EUR 157,769 thousand, EUR 145,694 thousand.

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

	30 June 2010	31 December 2009
Deferred tax assets, including:	*26,653*	*26,300*
- Deferred tax assets to be recovered after more than 12 month	21,859	22,091
- Deferred tax assets to be recovered within 12 month	4,794	4,209
Deferred tax liabilities, including:	*(53,883)*	*(35,481)*
- Deferred tax liabilities to be recovered after more than 12 month	(40,238)	(23,236)
- Deferred tax liabilities to be recovered within 12 month	(13,645)	(12,245)

12 Other non-current assets

		30 June 2010	31 December 2009
Financial non-current assets			
Non-current loans issued (including outstanding interest)		51,807	28,371
	Less impairment provision	(169)	(61)
Non-current loans issued (including outstanding interest)- net		*51,638*	28,310
Non-current trade receivables		6,248	5,939
	Less impairment provision	(3,100)	(3,121)
Non-current trade receivables - net		*3,148*	2,818
Other non-current receivables		11,321	7,281
	Less impairment provision	(6,770)	(4,328)
Other non-current receivables - net		*4,551*	2,953
Available-for-sale investments		2,092	1,845
Long-term derivative financial instruments - assets		49,017	-
		110,446	**35,926**
Non-financial non-current assets			
Non-current advances to suppliers and prepayments		1,154	-
	Less impairment provision	-	-
Non-current advances to suppliers and prepayments, net		*1,154*	-
VAT recoverable		239	-
Other non-current assets		3,793	235,083
		5,186	**235,083**
		115,632	**271,009**

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

(in thousands of EUR)

12 Other non-current assets (continued)

As at 30 June 2010 non-current loans issued included EUR 51,615 thousand (31 December 2009: EUR 28,303 thousand) in respect of loan given by the Parent company to JSC OGK-1, the company under trust management (see Notes 31 (d), 32), with floating interest rate equal to refinancing rate of the Central Bank of the Russian Federation plus 2.76% p.a. The maturity date of the loan agreement was prolonged till December 2019.

As at 30 June 2010 available-for-sale investments included EUR 2,025 thousand (31 December 2009: EUR 1,782 thousand) in respect of investments in the shares of JSC Sangtudinskaya GES-1 (Tajikistan). The increase in investments into JSC Sangtudinskaya GES-1 in the amount of EUR 243 thousand represents the translation difference recognised in other comprehensive income of the consolidated statement of comprehensive income.

As at 30 June 2010 other non-current assets included EUR 1,556 thousand of prepayments on solidarity accounts and on individual accounts in non-state pension fund in respect of current employees (31 December 2009: EUR 1,370 thousand). The prepayments are intended to be used for settlement of defined benefit pension obligations.

As at 31 December 2009 other non-current assets included EUR 231,505 thousand relating to construction of the second power generating block at Kaliningradskaya TEC-2 (see Note 21). As at 30 June 2010 the amount was reclassified to other current assets (see Note 16) as in accordance with the contract the construction will be completed by the end of the first quarter 2011.

Included in the Long-term derivative financial instruments the amount of EUR 49,017 thousand represented the fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 17).

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

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2010	(3,121)	(61)	(4,328)	(7,510)
Provision for receivables impairment	-	-	(2,461)	(2,461)
Release of provision	379	-	-	379
Unwind of discount	-	-	584	584
Translation difference	(358)	(108)	(565)	(1,031)
At 30 June 2010	**(3,100)**	**(169)**	**(6,770)**	**(10,039)**

	Non-current trade receivables	Non-current loans issued incl. interest	Other non-current receivables	Total provision
At 1 January 2009	(1,834)	(56)	(5,080)	(6,970)
Provision for receivables impairment	(434)	-	-	(434)
Unwind of discount	10	-	258	268
Translation difference	(6)	3	276	273
At 30 June 2009	**(2,264)**	**(53)**	**(4,546)**	**(6,863)**

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

13 Inventories

	30 June 2010	31 December 2009
Fuel production stocks	23,531	21,746
Spare Parts	20,833	16,184
Materials and consumables	14,267	13,334
Other inventories	7,932	5,980
	66,563	**57,244**

(in thousands of EUR)

14 Accounts receivable and prepayments

		30 June 2010	31 December 2009
Financial assets:		**131,010**	**150,527**
Trade receivables		178,166	196,010
	Less impairment provision	(70,647)	(65,218)
Trade receivables - net		*107,519*	130,792
Other receivables		28,106	24,325
	Less impairment provision	(6,469)	(6,098)
Other receivables - net		*21,637*	18,227
Short-term loans issued (including outstanding interest)		1,651	1,514
	Less impairment provision	(202)	(6)
Short-term loans issued (including outstanding interest)		*1,449*	1,508
Dividends receivable		405	-
Non-financial assets:		**122,531**	**124,742**
Advances to suppliers and prepayments		18,467	23,655
	Less impairment provision	(1,212)	(995)
Advances to suppliers and prepayments - net		17,255	22,660
Short-term VAT recoverable		32,203	38,685
Taxes prepaid		73,073	63,397
		253,541	**275,269**
Impairment provision, total		(78,530)	(72,317)

As at 30 June 2010 included in the taxes prepaid is VAT in the total amount of EUR 72,037 thousand (31 December 2009: EUR 62,822 thousand; 30 June 2009: EUR 57,823 thousand).

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

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2010	**(65,218)**	**(995)**	**(6)**	**(6,098)**	**(72,317)**
Provision for receivables impairment	(10,122)	(114)	(170)	(241)	**(10,647)**
Release of provision	11,250	21	-	268	**11,539**
Unwinding of discount	-	-	-	224	**224**
Foreign exchange gain	(48)	11	-	32	**(5)**
Translation difference	(6,509)	(135)	(26)	(654)	**(7,324)**
At 30 June 2010	**(70,647)**	**(1,212)**	**(202)**	**(6,469)**	**(78,530)**

(in thousands of EUR)

14 Accounts receivable and prepayments (continued)

	Trade receivables	Advances to suppliers and prepayments	Short-term loans issued (incl. interest)	Other receivables	Total provision
At 1 January 2009	**(65,509)**	**(1,204)**	**(66)**	**(4,980)**	**(71,759)**
Provision for receivables impairment	(2,655)	-	-	(318)	**(2,973)**
Release of provision	3,623	185	-	137	**3,945**
Receivables written off during the year as uncollectible (provided as of year beginning)	-	-	-	38	**38**
Unwinding of discount	2	-	-	23	**25**
Foreign exchange gain/(loss)	53	-	-	32	**85**
Translation difference	234	41	1	(9)	**267**
At 30 June 2009	**(64,252)**	**(978)**	**(65)**	**(5,077)**	**(70,372)**

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

At 30 June 2010	Trade receivables	Short-term loans issued (including interest)	Other receivables	Dividends receivable	Total
Not past due not impaired	85,833	1,624	16,522	405	104,384
Past due but not impaired	11,123	-	618	-	11,741
Past due and impaired	81,210	27	10,966	-	92,203
Total	**178,166**	**1,651**	**28,106**	**405**	**208,328**

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

(in thousands of EUR)

14 Accounts receivable and prepayments (continued)

As of 30 June 2010 accounts receivable of EUR 11,741 thousand (31 December 2009: EUR 18,159 thousand) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default. The ageing analysis of these receivables is as follows:

Past due but not impaired	30 June 2010	31 December 2009
Up to 3 month	10,871	16,621
3 to 6 month	88	714
6 to 12 month	782	824
Total	**11,741**	**18,159**

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

Past due and impaired	30 June 2010	31 December 2009
Up to 3 month	13,351	16,003
3 to 6 month	6,691	7,035
6 to 12 month	12,408	9,521
Over 12 months	59,753	68,393
Total	**92,203**	**100,952**

The Group does not hold any collateral as security.

15 Cash and cash equivalents

	30 June 2010	31 December 2009
Cash at bank and in hand	619,230	84,225
Foreign currency accounts	77,841	66,247
Bank deposits with maturity of three months or less	21,527	39,724
Other cash and cash equivalents	12,966	-
	731,564	**190,196**

Included into Other cash and cash equivalents amount of EUR 12,966 thousand represents promissory note of JSC Credit Bank of Moscow purchased by the Parent company on 24 June 2010 with the total nominal value of RUR 500 million or EUR 13,094 thousand and maturity date of 22 September 2010 (as at 31 December 2009: nil).

(in thousands of EUR)

15 Cash and cash equivalents (continued)

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

Financial inctitution	Credit rating	Rating agency	30 June 2010	31 December 2009
JSC Sberbank	BBB/Stable/F3	Fitch	324,639	58,368
CJSC Peresver Bank	Unrated	Unrated	114,529	30,899
JSC Credit Bank of Moscow	B+/Stable/B	Fitch	92,987	-
JV Bank ROSSIYA	E+/Not Prime/B2	Moody's	70,586	-
JSC Alfa-Bank	BB/Stable/B	Fitch	27,086	10,866
JSC Gasprombank	BB/Stable/B	Standard&Poor's	22,422	20,702
JSC Russ-Bank	Unrated	Unrated	13,491	7,434
PLC Nordea Bank Finland	AA-/Stable/A-1	Standard&Poor's	13,094	2,252
JSC NOMOS-BANK	BB-/Stable/B	Fitch	10,545	7,175
Commerzbank AG	A/Negative/C+	Moody's	9,357	1
JSC Bank of Georgia	A/Negative/A-1	Standard&Poor's	5,001	2,113
Swedbank AB	A/Stable/A-1	Standard&Poor's	4,442	-
KOR STANDART BANK	B+/Stable/B	Fitch	3,761	-
CJSC Ameriabank	Unrated	Unrated	3,358	-
SEB AB	A+/Stable/A-1	Standard&Poor's	3,027	5,730
ING Bank NV	A+/Stable/A-1	Standard&Poor's	3,015	476
CJSC VTB Bank Armenia	BBB/Negative/A-3	Standard&Poor's	1,916	186
SC Vnesheconombank	BBB/Stable/F3	Fitch	1,678	4,117
JSC KazInvestBank	B-/Nagative/C	Standard&Poor's	1,540	944
LLC HSBC Bank RR	Unrated	Unrated	125	4,220
JSC Evrofinance Mosnarbank	B+/Stable/B	Fitch	39	7,602
SAO Commerzbank EURASIJA	A+/Stable/A-1	Standard&Poor's	-	4,880
JSC Petrocommerzbank	B+/Stable/B	Standard&Poor's	-	11,524
Other			4,926	10,707
			731,564	**190,196**

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

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

Bank deposits with original maturity of three months or less at 30 June 2010

Bank	Interest rate	Amount of deposits
PLC Nordea Bank Finland	2.50%	11,784
Swedbank AB	0.46%	4,186
CJSC Ameriabank	7.00%	3,358
CJSC VTB Bank Armenia	4.70%	1,908
Swedbank AB	0.33%	212
JSC Vozrozhdenie Bank	4.50%	79
		21,527

(in thousands of EUR)

16 Other current assets

	30 June 2010	31 December 2009
Restricted cash	7,150	6,180
Short-term derivative financial instruments	74	-
Deposits with maturity of 3-12 months	3,592	691
Other	428,158	2,593
	438,974	**9,464**

As at 30 June 2010 restricted cash balances include cash deposited in OKO Bank (collateral security in favour of Fingrid) and Nordea (collateral securities in favour of Nord Pool and other parties) in the aggregate amount of EUR 2,942 thousand (31 December 2009: EUR 3,426 thousand).

As at 30 June 2010 restricted cash balances include cash deposited in CJSC ACBA (collateral security in favour of AREVA Energietechnik GmbH on the equipment supply agreement) and VTB Bank Armenia (collateral security in favour of EBRD on the loan agreement) in the amount of EUR 2,637 thousand and EUR 1,542 thousand respectively (31 December 2009: EUR 2,219 thousand and EUR 496 thousand respectively).

As at 30 June 2010 other current assets included EUR 361,217 thousand (relating to construction of the second power generating block at Kaliningradskaya TEC-2 (see Note 21). As at 31 December 2009 the corresponding amount of EUR 231,505 thousand was included in other non-current asset (see Note 12).

Included in other current asset amount of EUR 64,601 thousand represents five equal short-term promissory notes of LLC Rosgosstrah purchased by the Parent company on 28 June 2010 with the total nominal value of RUR 2,500 million or EUR 65,469 thousand and maturity date of 4 October 2010 (as at 31 December 2009: nil).

17 Equity

Share capital

	30 June 2010	31 December 2009
Number of ordinary shares issued and fully paid (in units)	2,893,027,370,229	2,274,113,845,013
Par value (in Russian roubles ("RR")	0.0281	0.0281

Movements in outstanding shares (in thousand of units)

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

	Issued shares	Treasury shares	Total
1 January 2010	**2,274,113,845**	**(98,064,455)**	**2,176,049,390**
Additional issue of ordinary shares	618,913,525	-	618,913,525
Redemption of treasury shares under the share option plan	-	4,330,897	4,330,897
30 June 2010	**2,893,027,370**	**(93,733,558)**	**2,799,293,812**

The shareholders meeting held on 21 December 2009 approved the additional issue of 1.6 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each. On 27 April 2010 the Board of Directors of the Parent company approved the issue cost of the additional ordinary shares in the amount of RUR 0.0402 per share. The shareholders of the Parent bought out under the pre-emptive right 89,610 million shares for the total consideration of RUR 3,602 million or EUR 94,150 thousand. On 18 June 2010 State Corporation Vnesheconombank purchased 529,303 million

17 Equity (continued)

of shares under the closed subscription for total consideration of RUR 21,278 million or EUR 556,122 thousand. The cash received from SC Vnesheconombank will be 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 forth quarter 2010.

Since the ownership rights for the issued shares are not registered though all the shares issued were fully paid as at 30 June 2010, the amount of share issue is recorded in the consolidated statement of financial position and the consolidated statement of changes in equity as non-registered share capital.

The total number of the Company's ordinary shares authorised for issue as at 30 June 2010 was 15,400,000,000 thousand (31 December 2009: 4,631,258,360 thousand).

Put and call option

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

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

As at 30 June 2010 the Group is not intended to exercise the Call option and assesses the possibility of realisation of the Put Option by SC Vnesheconombank as low.

Treasury shares. As at 30 June 2010 the Group held 93,733,558 thousands treasury shares amounted to RUR 2,633,695 thousand or EUR 71,402 thousand (as at 31 December 2009: 98,064,455 thousands treasury shares amounted to RUR 2,755,383 thousand or EUR 74,701 thousand). Treasury shares have been obtained as a result of the reorganisation of the Parent company in earlier periods. All of the treasury shares were held by one of the Company's 100% subsidiaries.

During the six months ended 30 June 2010 4,330,897 thousand of treasury shares amounted to RUR 121,688 thousand or EUR 3,299 thousand have been redeemed by the management of the Group under share option programme (see Note 31).

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

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

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

On 31 March 2010 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2009 of KZT 172,139 thousand or EUR 957 thousand, out of which KZT 41,371 thousand or EUR 229 thousand were paid to minorities.

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

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

(in thousands of EUR)

17 Equity (continued)

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 19 (iii)). The payment period according to the agreement is six months; the first repayment date is 12 November 2009. As at 30 June 2010 the loss on the above hedge transaction was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to EUR 2,228 thousand (as at 30 June 2009: it was a gain amounted to EUR 1,119 thousand), the ineffective part of the hedge transaction – loss amounted to EUR 226 thousand was recognised in operating expenses of the consolidated statement of comprehensive income (for six months ended 30 June 2009: the ineffective part of the hedge transaction – income of EUR 14 thousand was recognised in operating income of the consolidated statement of comprehensive income).

In May 2010 the Parent company entered into a foreign currency forward in order to hedge the financial risks of foreign currency sales. As at 30 June 2010 the gain on the above hedge transaction was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to EUR 59 thousand (as at 30 June 2009: nil).

18 Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The antidilutive effects of the recognition of Put and Call option signed with SC Vnesheconombank (see Note 17) and the share option plan (see Note 31) are not included in calculation of diluted earnings per share.

	Six months ended 30 June 2010	**Six months ended 30 June 2009**
Weighted average number of shares for basic earnings per share	2,217,082,329,988	2,176,049,389,090
Weighted average number of shares adjusted for effect of dilution	2,217,082,329,988	2,176,049,389,090
(Loss) / Profit attributable to the shareholders of the Company	(8,921)	18,323
Basic earnings per ordinary share for (loss) / profit attributable to the shareholders of the Company (EUR)	(0.000004)	0.000008
Diluted earnings per ordinary share for (loss) / profit attributable to the shareholders of the Company (EUR)	(0.000004)	0.000008

(in thousands of EUR)

19 Loans and borrowings

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

	Currency	Effective interest rate	30 June 2010	31 December 2009
SC Vnesheconombank (iii)[1]	USD	Libor+6%	133,159	113,621
JSC Sberbank (ix)	RUR	8%, 9.4%	104,750	230,477
JSC TransCreditBank(xi)	RUR	9.4%	57,612	-
JSC Gazprombank (v)	RUR	9.5%	44,011	38,735
SC Vnesheconombank (vii) [2]	RUR	CBR+2.75%	41,238	34,359
JSC Bank "ROSSIYA" (xii)	RUR	9.5%	39,281	-
JSC Alfa-Bank (xiii)	RUR	8.9%	39,281	-
JSC Gazprombank (xiv)	RUR	9.0%	34,044	-
EBRD (viii) [2]	EUR	Euribor+5%	33,928	15,223
CJSC Business-Alians (x)	RUR	11.8%	28,246	31,128
JSC Sobinbank (xv)	RUR	10.5%	26,187	-
SC Vnesheconombank (xvi) [2]	EUR	Euribor+7%	22,500	-
JSC Gazprombank (vi)	RUR	9.5%	22,259	19,591
PLC VTB Bank Europe [2]	USD	Libor+2%	20,423	29,044
Government of Armenia (iv)	JPY	12.0%	15,337	7,468
JSC VTB Bank Georgia	USD	14.0%	11,483	9,755
Government of Armenia (subloaned-KfW) (ii)	EUR	18.0%	4,524	4,535
Ministry of Defence , Armenia	AMD	12.0%	3,009	2,490
Ministry of Finance, Georgia (subloaned-IDA/WB) (i,a)	USD	20.0%	3,681	2,681
Ministry of Finance, Georgia (subloaned-EBRD) (i,b)	USD	20.0%	2,685	2,307
Ministry of Finance, Georgia (subloaned-KfW) (i,c)	EUR	20.0%	1,432	1,060
JSC Sberbank	RUR	10.8%	-	46,095
JSC Russ-Bank	RUR	13.8%	-	34,572
SC Vnesheconombank	RUR	CBR+2.75%	-	28,303
CJSC VTB Bank Armenia	USD	12.0%	-	16,266
Other			12,892	24,388
Total long-term borrowings			**701,962**	**692,098**
Less: current portion of long-term loans and borrowings and long-term financial lease			(271,284)	(106,305)
			430,678	**585,793**

The effective interest rate is the market interest rate applicable to the respective loan.

As at 30 June 2010 the estimated fair value of total non-current debts (including the current portion) was EUR 672.33 million (31 December 2009: EUR 684.05 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 30 June 2010 one of the Group entities, Mtkvari Energy LLC, had three loans of total carrying value of EUR 7,798 thousand obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

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

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

19 Loans and borrowings (continued)

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

The loans currently are payable to:

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

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

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

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

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

The Group considered the ability of Mtkvari Energy LLC to settle it's existing and future liabilities in accordance with the above repayment priority and concluded that the repayment of these three loans will start not earlier than in 2013 with the last payment to be made in 2064. The amortised cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20%, approximating the equivalent market yield on loan borrowings by Mtkvari Energy LLC at the date of inception of these loans.

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting on the Mtkvari Energy LLC loans discussed above, in the amount of EUR 652 thousand and EUR 167 thousand in the period for the period of six months ended 30 June 2010 and 30 June 2009, respectively.

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

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

The Group recognised a charge within interest expense in respect of the amortization of the prior period discounting for the Armenian loans considered above in the amount of EUR 374 thousand in the period ended 30 June 2010 and EUR 385 thousand in the period for the period of six months ended 30 June 2010 and 30 June 2009, respectively.

(iii) As at 30 June 2010 the Parent Company had a loan in the amount of USD 163 million with an interest rate of LIBOR+6%, which was obtained for the purpose of financing the purchase of Freecom Trading Limited. The loan is to be repaid on 12 November 2013.

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

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

19 Loans and borrowings (continued)

(v) On 29 October 2009 the Parent Company obtained a credit line in the total amount of RUR 1,681 million with a fixed interest rate of 9.5% for the following finance purposes: issuance of loans (deposits) to third parties, investments in share capitals and purchases of shares on secondary market. The loan is to be repaid on 29 August 2014.

(vi) On 20 October 2009 the Parent Company obtained credit lines in the amount of RUR 850 million with a fixed interest rate of 9.5%. The loan is to be repaid on 20 October 2014.

(vii) In March 2009 the Parent Company obtained a loan in the amount of RUR 1,491 million and the total amount of credit limit of RUR 3.7 billion with a interest rate equalled CBR+2.75% for the purposes of construction of second power generating block on Sochinskaya TPS, one of the Parent Company branches. The loan is to be repaid on 30 September 2018.

(viii)As at 30 April 2009 one of the Group entities CJSC Elektricheskiye seti Armenii obtained a credit line of EUR 29.2 million and the total amount of credit limit of EUR 42 million with a interest rate equalled to EURIBOR+5% for the purposes of refinancing loan received from other bank and financing of current operating activities.

(ix) As at 31 August 2009 the Parent company obtained a credit line in the amount of RUR 10 billion for the purposes of refinancing loans received from other banks. The remaining amount of liability as at 30 June 2010 comprised RUR 4 billion with the interest rate of 8% for RUR 2 billion of current portion and 9.4% for RUR 2 billion of long-term portion of the credit line. The loan is to be repaid on 14 June 2013.

(x) The liability to CJSC Busines-Aliance in the amount of EUR 28,246 thousand represents finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS, one of the Parent Company branches. The power generating block was set into operation at the end of 2009 financial year. Under the terms of the lease agreement the lessor imposes all the costs arising from the change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR) on the Parent company.

(xi) As at 26 May 2010 the Parent company obtained a credit in the amount of RUR 2.2 billion with a fixed interest rate equalled to 9.4% for the purposes of financing the current operating activities. The loan is to be repaid on 26 May 2013.

(xii) As at 7 June 2010 the Parent company obtained a credit in the amount of RUR 1.5 billion with a fixed interest rate equalled to 9.5% for the purposes of financing the current operating activities. The loan is to be repaid on 7 June 2013.

(xiii)As at 30 June 2010 the Parent company obtained a credit line in the amount of RUR 1.5 billion and the total amount of credit limit RUR 2.2 billion with a fixed interest rate equalled to 8.9% for the purposes of financing the current operating activities. The loan is to be repaid on 30 June 2013.

(xiv)As at 7 June 2010 the Parent company obtained a credit line in the amount of RUR 1.3 billion and the total amount of credit limit RUR 2.2 billion with a fixed interest rate equalled to 9.0% for the purposes of financing the current operating activities. The loan is to be repaid on 7 June 2013.

(xv) As at 26 March 2010 the Parent company obtained a credit line in the amount of RUR 1 billion with a fixed interest rate equalled to 10.5% for the purposes of financing the current operating activities. The loan is to be repaid on 26 March 2013.

(xvi)As at 17 June 2009 one of the Group entities CJSC Elektricheskiye seti Armenii obtained a credit line of EUR 22.5 million with a floating interest rate equalled to EURIBOR+7% for the purposes of refinancing loan received from other banks. As at 15 October 2009 the Parent company signed a guaranty agreement with the creditor according to which it carries the joint liability under the above loan agreement.

(xvii)As at 28 December 2009 one of the Group entities RAO Nordic Oy entered into financial guarantee agreement of the amount of EUR 30 million with an interest rate equalled to 16% for the purposes of ensuring its trade activity. The Parent company acted as guarantor under this agreement.

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

(xix) As at 30 June 2010 the Group breached a certain covenant under a number of loans in respect of maintaining EBITDA to Interest Expense ratio. The noncompliance with this covenant affect the classification of loans as current

(in thousands of EUR)

19 Loans and borrowings (continued)

in the interim consolidated statement of financial position at 30 June 2010. The noncompliance with above covenant did not affect in any fines or penalties from the lender.

Gross finance lease liabilities – minimum lease payments

	30 June 2010	31 December 2009
Less than one year	9,990	12,928
Between one and five years	25,134	25,627
After five years	1,528	4,969
	36,652	**43,524**
Future finance charges on finance leases	(8,284)	(12,212)
Present value of finance lease liabilities	**28,368**	**31,312**

The present value of finance lease liabilities is as follows:

	30 June 2010	31 December 2009
Less than one year	7,209	9,102
Between one and five years	19,702	17,603
After five years	1,457	4,607
	28,368	**31,312**

Maturity table:

	30 June 2010	31 December 2009
Due for repayment		
Between one and two years	25,475	69,819
Between two and five years	368,010	478,756
After five years	37,193	37,218
	430,678	**585,793**

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

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

	Effective interest rate	30 June 2010	31 December 2009
Current loans and borrowings	12%	7,586	15,211
Current portion of non-current loans and borrowings	3.5%-15.4%	264,075	97,203
Current portion of finance lease liability	10.58%-15.03%	7,209	9,102
Total		**278,870**	**121,516**

As at 30 June 2010 several bank loans are collateralised by properties with a carrying amount of EUR 3,731 thousand (31 December 2009: EUR 3,087 thousand) – see Note 7 (b). The amount of the loans as at 30 June 2010 is EUR 3,491 thousand (31 December 2009: EUR 3,313 thousand).

(in thousands of EUR)

19 Loans and borrowings (continued)

The Group has the following undrawn borrowing facilities:

	30 June 2010	31 December 2009
Floating rate:		
Expiring within one year	55,656	176,130
Expiring beyond one year	23,569	-
	79,225	*176,130*
Fixed rate:		
Expiring within one year	7,393	64,431
Expiring beyond one year	51,331	30,001
	58,724	*95,432*
Total	**137,949**	**270,562**

20 Accounts payable and accrued liabilities

	30 June 2010	31 December 2009
Financial liabilities		
Trade payables	111,718	108,438
Short-term derivative financial instruments	1,425	1,718
Other payables and accrued expenses	37,184	21,827
Total	**150,327**	**131,983**
Non-financial liabilities		
Direct financing	333,032	-
Advances received	10,024	7,129
Staff payables	16,122	7,920
Other payables	449	3,898
Total	**359,627**	**18,947**
	509,954	**150,930**

Short-term derivative financial instruments recognized as at 30 June 2010 in the amount of EUR 1,425 thousand represent the fair value of open electricity derivatives of RAO Nordic Oy for the purposes of hedging of future sales (31 December 2009: EUR 1,718 thousand).

As at 30 June 2010 direct financing in the amount of EUR 333,032 thousand reperesents financing received from JSC "Mejregionenergostroy" for the purpose of construction of the second power generating block at Kaliningradskaya TEC-2 on behalf of that company under an investment agreement. As at 31 December 2009 the correspponding amount was included in the other non-current liabilities (see Note 21). In accordance with the investment agreement, JSC "Mejregionenergostroy" will finance the capital expenditure through payments to a special bank account up to a limit of EUR 584,029 thousand. The Parent Company will receive remuneration in the amount limited to EUR 3,952 thousand (including VAT), as defined in the investment contract, in connection with management of the construction project. After construction is completed (expected in the first quater 2011), the title of ownership will be transferred to JSC "Mejregionenergostroy".

Included in Other payables and accrued expenses the amount of EUR 24,292 thousand (30 June 2009: nil) represents liabilities to JSC "Technopromexport" under the agreement of construction of the second power generating block at Kaliningradskaya TEC-2.

21 Other non-current liabilities

	30 June 2010	31 December 2009
Financial liabilities		
Long-term derivative financial instruments	3,040	76
Total financial liabilities	**3,040**	**76**
Non-financial liabilities		
Pensions liabilities	3,582	3,078
Direct financing	-	216,701
Government grants	13,631	6,279
Other long-term liabilities	507	1,416
Total non – financial liabilities	**17,720**	**227,474**
Total	**20,760**	**227,550**

(in thousands of EUR)

21 Other non-current liabilities (continued)

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

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

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

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

Amounts recognised in the consolidated statement of financial position:

	30 June 2010	31 December 2009	30 June 2009
Present value of defined benefit obligations	5,864	4,918	3,795
Less: Fair value of plan assets	-	-	-
Deficit in plan	**5,864**	**4,918**	**3,795**
Net actuarial loss not recognised in the balance sheet	(1,460)	(1,209)	(92)
Unrecognised past service costs	(822)	(631)	(589)
Pension liabilities in the balance sheet	**3,582**	**3,078**	**3,114**

Amounts recognised in the consolidated statement of comprehensive income:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Current service cost	193	167
Interest cost	237	183
Recognised actuarial loss	77	6
Recognised past service cost	(12)	75
Total	**495**	**431**
Curtailment and settlement gain	(375)	(159)
Total	**120**	**272**

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

	30 June 2010	30 June 2009
Present value of defined benefit obligations as at the beginning of the period	4,918	4,047
Current service cost	193	167
Interest cost	237	183
Actuarial loss	21	(212)
Past service cost	232	204
Benefits paid	(39)	(74)
Other (Curtailment gain)	(379)	(300)
Translation difference	681	(220)
Present value of defined benefit obligations as at the end of the period	**5,864**	**3,795**

Plan assets

	30 June 2010	30 June 2009
Employer contributions	39	74
Benefits paid	(39)	(74)
Fair value of plan assets as at the end of the period	-	-

(in thousands of EUR)

21 Other non-current liabilities (continued)

Changes in the pension liabilities are as follows:

	30 June 2010	30 June 2009
Pension liabilities at start of the year	3,078	3,081
Net expense recognised in the statement of operations	120	272
Benefits paid	(39)	(74)
Translation difference	423	(165)
Pension liabilities at end of period	**3,582**	**3,114**

Principal actuarial assumptions are as follows:

	30 June 2010	31 December 2009	30 June 2009
Discount rate	8.00%	9.00%	11.50%
Salary increase	8.00%	8.00%	8.50%
Inflation	6.50%	6.50%	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.

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 2010	30 June 2009
Defined benefit obligation	5,864	3,795
Plan assets	-	-
Deficit in plan	5,864	3,795
Experience adjustments on plan liabilities, gain	460	878
Experience adjustments on plan assets	-	-

22 Taxes payable

	30 June 2010	31 December 2009
Value added tax (including deferred)	9,421	7,548
Property tax	4,554	2,509
Fines and interest	2,690	2,461
Other taxes	3,978	3,132
	20,643	**15,650**

Included in value added tax payable is EUR 3,726 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2009: EUR 3,669 thousand).

23 Revenue

	Six months ended 30 June 2010	Six months ended 30 June 2009
Electricity and capacity	941,329	775,041
Government Grants / Subsidies	47	-
Other revenue	5,572	1,210
	946,948	**776,251**

Electricity and capacity revenue includes EUR 220 million (EUR 98 million for six months ended 30 June 2009) revenue from sales transactions through JSC CFR - the utility market intermediary in the Russian Federation and EUR 123 million (EUR 86 million for six months ended 30 June 2009) revenue from sales to NordPool - the Nordic power exchange.

(in thousands of EUR)

23 Other operating income

	Six months ended 30 June 2010	Six months ended 30 June 2009
Electricity derivatives	11,747	664
Management fee (JSC OGK-1)	9,025	-
Rental income	3,918	1,264
Insurance compensation	746	583
Fee on sale of equipment	636	-
Other	6,285	3,210
	32,357	**5,721**

24 Operating expenses

	Six months ended 30 June 2010	Six months ended 30 June 2009
Purchased electricity and capacity	478,616	379,321
Fuel Expense	126,955	114,779
Employee benefit expenses and payroll taxes	72,928	52,429
Transmission fees	66,858	52,467
Depreciation of property, plant and equipment	44,915	40,087
Expenses from derivatives trading operations on the electricity market	19,433	-
Repairs and maintenance	14,930	11,093
Taxes other than on income	11,690	11,981
Agency fees	6,413	2,862
Operating lease expenses	4,593	2,944
Fees and penalties, other than tax	4,426	1,370
Insurance expenses	4,108	2,817
Business trip and field travel expenses	3,395	3,317
Consulting, legal and auditing services	2,877	3,787
Transportation expenses	2,526	1,371
Communication services	1,991	1,677
Security expenses	1,520	1,520
Bank services	1,426	1,857
Other materials for production purposes	1,399	1,156
Material expenses (office maintenance)	1,262	1,097
Social Expenditure	1,101	677
Amortisation of Intangible assets	960	836
Charity donations	854	942
(Gain)/loss on sale or write-off of property, plant and equipment	702	853
Other provisions - charge (release)	665	1,185
Representative expenses	595	452
Brokerage charges	422	348
Provision for impairment of account receivables - charge (release)	382	(831)
Research and develompent	363	268
Water rectification expenses	339	-
Advertising	242	315
Depreciation of investment property	233	-
Custom taxes	200	166
Management fee	90	9
Write off of bad debt which was not previously provided	3	144
Provision for impairment of investment property	(4,502)	-
Other operating expenses	8,314	12,927
	883,224	**706,223**

(in thousands of EUR)

25 Finance income and expenses

Finance income	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest income	9,484	7,523
Dividend income	1	-
	9,485	**7,523**

Finance expenses	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest expense	47,121	27,198
Foreign exchange loss, net	3,098	29,684
Other finance expenses	54,737	-
	104,956	**56,882**

The expense in the amount EUR 54,737 thousand, included in other finance expenses, is related to the recognition of fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 17).

Included in interest expense is the amount of interest expense on a long-term interest rate swap contract (see Note 17) of EUR 226 thousand recognised in the consolidated statement of comprehensive income during the current period (for the six months ended 30 June 2009: EUR 127 thousand).

26 Income tax expense

	Six months ended 30 June 2010	Six months ended 30 June 2009
Current tax expense	(10,277)	(12,812)
Deferred tax expense	(16,144)	(1,006)
Release of provision for income tax	-	6,289
	(26,421)	**(7,529)**

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (2009: 20%). The income tax rate in Estonia is 0%, Finland is 26% (2009: 26%), in Georgia is 15% (2009: 15%), in Latvia is 15%, in Lithuania is 20% (2008: 20%), in Armenia is 20% (2009: 20%) and in Kazakhstan is 20% (2009: 20%). In accordance with tax legislations, tax losses in different Group companies in the countries where Group companies operate may not be offset against taxable profit of other Group companies. Accordingly, profit tax may accrue even where there is a net consolidated tax loss.

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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Profit before profit tax	21,755	25,397
Theoretical profit tax charge at 20%	(4,351)	(5,079)
Effect of different tax rates	4,597	881
Effect of different tax base (CJSC Moldavskaya GRES)	(2,712)	(1,978)
Non-recognised deferred tax assets movements and recognition of previously unrecognised tax benefits	(4)	(4,913)
Provision for income tax release/(accrual)	-	6,289
Tax effect of items which are not deductible or assessable for taxation purposes, net	(23,951)	(2,729)
	(26,421)	**(7,529)**

The tax system in Transnistria, Moldova, where CJSC Moldavskaya GRES operates, is based on revenue at a rate of 3.9% (for six month ended 30 June 2009: 6.7%).

(in thousands of EUR)

27 Financial instruments and financial risk factors

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk and price risk), credit risk and liquidity risk. Prior to 2008 the Group did not have a risk policy in order to hedge its financial exposures. Since 2008 risk management is carried out in accordance with a risk policy approved by the Management Board.

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

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

30 June 2010	Note	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Assets as per consolidated statement of financial position					
Available for sale financial assets	12	-	-	2,092	2,092
Derivative financial instruments	12,16	-	49,091	-	49,091
Trade and other receivables excluding prepayments	12,14	190,347	-	-	190,347
Restricted cash	16	7,150	-	-	7,150
Current portion of long-term deposits	16	3,592	-	-	3,592
Cash and cash equivalents	15	731,564	-	-	731,564
Total assets		**932,653**	**49,091**	**2,092**	**983,836**

30 June 2010	Note	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance lease liabilities	Total
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	19	-	681,180	-	681,180
Finance lease liabilities	19	-	-	28,368	28,368
Derivative financial instruments	20,21	4,465	-	-	4,465
Trade and other payables excluding taxes	20	-	148,902	-	148,902
Total liabilities		**4,465**	**830,082**	**28,368**	**862,915**

31 December 2009	Note	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Assets as per consolidated statement of financial position					
Available for sale financial assets	12	-	-	1,845	1,845
Derivative financial instruments		-	-	-	-
Trade and other receivables excluding prepayments	12,14	184,608	-	-	184,608
Restricted cash	16	6,180	-	-	6,180
Current portion of long-term deposits	16	691	-	-	691
Cash and cash equivalents	15	190,196	-	-	190,196
Total assets		**381,675**	**-**	**1,845**	**383,520**

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

31 December 2009	Note	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance lease liabilities	Total
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	19	-	675,997	-	675,997
Finance lease liabilities	19	-	-	31,312	31,312
Derivative financial instruments	20,21	1,794	-	-	1,794
Trade and other payables excluding taxes	20	-	130,265	-	130,265
Total liabilities		**1,794**	**806,262**	**31,312**	**839,368**

(a) Credit risk

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

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

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

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

30 June 2010

	Russia	Armenia	Georgia	Lithuania	Moldova	Finland	Other	Total
Derivative financial instruments	49,091	-	-	-	-	-	-	**49,091**
Restricted cash	-	4,179	-	29	-	2,942	-	**7,150**
Trade receivables	49,102	25,938	14,349	8,922	4,245	4,323	640	**107,519**
Other receivables	12,511	4,359	3,663	669	1,808	-	481	**23,491**
Non-current loans issued	51,630	-	-	7	-	-	1	**51,638**
Non-current receivables	4,420	13	2,277	-	-	-	989	**7,699**
Cash and cash equivalents	697,369	6,692	9,717	7,434	5,707	1,335	3,310	**731,564**
Total	**864,123**	**41,181**	**30,006**	**17,061**	**11,760**	**8,600**	**5,421**	**978,152**

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

31 December 2009

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

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings (see Note 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 2010 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of EUR 110,667 thousand (31 December 2009: EUR 133,610 thousand), and other receivables in the amount of EUR 79,680 thousand (31 December 2009: EUR 50,998 thousand). The total sum of receivables as at 30 June 2010 was EUR 190,347 thousand (as at 31 December 2009: EUR 184,608 thousand).

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

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

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

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

As at 30 June 2010	Nominal value	Provision for impairment of accounts receivable	Carrying amount	Share in total, %
A	89,461	-	89,461	**47%**
B'	19,295	(1,975)	17,320	**9%**
B''	27,830	(7,564)	20,266	**11%**
B'''	12,448	(6,645)	5,803	**3%**
C	65,160	(64,215)	945	**0%**
Loans issued to employees	8,319	(4,557)	3,762	**2%**
Related parties (A class)	55,191	(2,401)	52,790	**28%**
Total	**277,704**	**(87,357)**	**190,347**	**100%**

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

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

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 (JSC OGK-1, Khramesi I and Khramesi II) and the loans issued to employees. Management considers these debts as highly likely to be recovered.

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole, incur currency risk on sales, purchases and borrowings that are denominated in a currency other than functional currency of the specific subsidiary or the Parent Company. The currencies giving rise to this risk are primarily the USD and EUR. In 2008 the Group entered into several forward contracts to manage the Group's foreign currency risks (see Note 16 and 20).

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

At 30 June 2010	**EUR**	**USD**	**Other**	**Total**
Trade and other receivables (excluding prepayments)	75,644	233,897	4,374	**313,915**
Cash and cash equivalents	50,490	23,764	922	**75,176**
Restricted cash	4,179	-	-	**4,179**
Available - for - sale financial assets	-	4	15	**19**
Derivative financial instruments (assets)	74	-	-	**74**
Loans and borrowings (excluding finance lease liabilities)	(97,080)	(300,366)	(15,500)	**(412,946)**
Finance lease liabilities	(24,809)	-	-	**(24,809)**
Derivative financial instruments (liabilities)	-	(3,040)	-	**(3,040)**
Trade and other payables (excluding taxes)	(17,058)	(31,686)	(9,131)	**(57,875)**
Net foreign currency position	**(8,560)**	**(77,427)**	**(19,320)**	**(105,307)**

At 30 June 2009	**EUR**	**USD**	**Other**	**Total**
Trade and other receivables (excluding prepayments)	71,745	218,718	3,198	**293,661**
Cash and cash equivalents	17,130	30,472	1,215	**48,817**
Restricted cash	40	-	-	**40**
Available - for - sale financial assets	-	3	13	**16**
Derivative financial instruments (assets)	-	1,006	-	**1,006**
Loans and borrowings (excluding finance lease liabilities)	(280,904)	(272,827)	(4,207)	**(557,938)**
Finance lease liabilities	(37)	-	-	**(37)**
Trade and other payables (excluding taxes)	(14,214)	(35,731)	(6,219)	**(56,164)**
Net foreign currency position	**(206,240)**	**(58,359)**	**(6,000)**	**(270,599)**

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

For the purposes of sensitivity analysis, management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income and equity for six months ended 30 June 2010 would have been a profit EUR 15,408 thousand and loss EUR 27,033 thousand (for six months ended 30 June 2009: profit EUR 37,775 thousand and loss EUR 9,473 thousand) in accordance with positive and negative scenario, respectively.

At 30 June 2010	USD /EUR	RUR /USD	RUR /EUR	AMD /USD	AMD /EUR	AMD /JPY	GEL /USD	GEL /EUR	GEL /AMD
Upper level	(2.7)%	8.1%	5.1%	(8.8)%	(11.3)%	(16.6)%	(7.2)%	(9.8)%	(1.7)%
Lower level	15.7%	(13.5)%	0.1%	9.5%	26.7%	27.5%	7.0%	23.8%	2.3%

At 30 June 2009	EUR /USD	RUR /USD	RUR /EUR	AMD /USD	AMD /EUR	AMD /JPY	GEL /USD	GEL /EUR	GEL /AMD
Upper level	11.7%	3.0%	15.0%	2.6%	14.5%	11.2%	3.5%	15.5%	0.9%
Lower level	(11.7)%	(3.4)%	(14.7)%	(2.6)%	(13.9)%	(11.2)%	(3.5)%	(14.7)%	(0.9)%

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

(ii) Interest rate risk

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

As at 30 June 2010, the variable rate debt, represented by loans with LIBOR, EURIBOR linked interest rates, amounted to EUR 210,010 thousand (31 December 2009: EUR 159,220 thousand).

As at 30 June 2010, the variable rate debt, represented by loans with CBR linked interest rates, amounted to EUR 41,238 thousand (31 December 2009: EUR 28,339 thousand).

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

	Probable deviation of LIBOR		Probable deviation of CBR	
	45 bp increase	16 bp decrease	225 bp increase	50 bp decrease
Hypothetical effect on income/(loss) for six months ended 30 June 2010	764	(262)	742	(165)
	190 bp increase	190 bp decrease		
Hypothetical effect on income/(loss) for the year ended 30 June 2009	2,330	(2,330)		

(in thousands of EUR)

27 Financial instruments and financial risk factors (continued)

(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	138,523	63,402	412,331	62,029	65,221	**741,506**
Payable on demand	174,397	-	-	-	-	**174,397**
Trade and other payables	148,920	-	-	-	135	**149,055**
Finance lease payables	9,966	6,918	18,216	1,528	-	**36,628**
Derivative financial instruments obligations	1,425	-	3,040	-	-	**4,465**
Total at 30 June 2010	**473,231**	**70,320**	**433,587**	**63,557**	**65,356**	**1,106,051**

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

(d) Capital management

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

The Group monitors capital on the basis of a number of ratios based on the statutory financial statements of JSC "INTER RAO UES" and the management accounts of its subsidiaries prepared according to statutory requirements. The Group analyses equity and debt financing (see Notes 17 and 19 respectively). As at 30 June 2010 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

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

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

As at 30 June, the Group was in compliance with the above share capital requirements.

27 Financial instruments and financial risk factors (continued)

(e) Electricity derivatives

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

(g) Fair values

Fair value has been determined either by reference to the market value at the end of the reporting period or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. For loans and borrowings the fair value is disclosed in the Note 19.

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 thousands of EUR)

27 Financial instruments and financial risk factors (continued)

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

30 June 2010	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	12,16	74	-	-	**74**
Financial assets held for trading					
Bank deposits with maturity of three months or less	15	-	-	21,527	**21,527**
Deposits with maturity of 3-12 months	16	-	-	3,592	**3,592**
Financial assets designated at fair value through profit or loss:					
Put and Call option agreement	12	-	49,017	-	**49,017**
Total financial assets		**74**	**49,017**	**25,119**	**74,210**
Financial liabilities					
Derivative financial instruments					
Electricity derivative	20	1,425	-	-	**1,425**
Interest rate SWAP	21	3,040	-	-	**3,040**
Financial liabilities at amortised cost					
Loans and borrowings	19	-	672,330	-	**672,330**
Total financial liability		**4,465**	**672,330**	**-**	**676,795**

31 December 2009	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets held for trading					
Bank deposits with maturity of three months or less	15	-	-	39,724	**39,724**
Deposits with maturity of 3-12 months	16	-	-	691	**691**
Total financial assets		**-**	**-**	**40,415**	**40,415**
Financial liabilities					
Derivative financial instruments					
Electricity derivative	20	1,718	-	-	**1,718**
Interest rate SWAP	21	76	-	-	**76**
Financial liabilities at amortised cost					
Loans and borrowings	19		684,050	-	**684,050**
Total financial liability		**1,794**	**684,050**	**-**	**685,844**

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

Derivatives

Derivative products valued using a valuation technique with market observable inputs (Level 2) is represented by Put and Call option described in Note 17. 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 of valuation dates, volatilities of shares and risk free rates.

As at the date of the first recognition of the Put and Call option - 18 June 2010 - the loss in amount of EUR 25,537 thousand was immediately recognized in profit and loss statement as it was determined by use of a valuation technique in which all inputs include data from observable markets. For the period from the date of the first recognition till the reporting date the additional loss in the amount EUR 29,200 thousand was recognized in profit and loss statement in accordance with the valuation technique.

If the market price of the shares as at 30 June 2010 would have been a 10% higher, with all other variables held constant, the hypothetical effect on income for six months ended 30 June 2010 would have been an income of EUR 8,395 thousand.

(in thousands of EUR)

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	30 June 2010	31 December 2009
Less than one year	4,973	4,054
Between one and five years	7,208	3,961
Over five years	34,413	14,507
	46,594	**22,522**

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

The Group also has lease agreements which have indefinite periods and which are not included in the table above. Annual payments for 2010 year on such lease contracts are EUR 245 thousand.

During the six months ended 30 June 2010 EUR 4,593 thousand (six month ended 30 June 2009: EUR 2,944 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating lease expenses.

29 Commitments

Investment commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisations of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. The remaining investment commitments as at 30 June 2010 are as follows:

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

29 Commitments (continued)

As of 30 June 2010 management considers that realisation of investment commitments was in line with schedule for the year 2010.

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

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

As of 30 June 2010, the Group is in compliance with the Moldavia investment program. The authorised body of Transnistria accepted the fulfilment of investment commitments for USD 122,402 thousand, out of which USD 50,200 thousand is to be invested into JSC Moldavskaya GRES if and when needed in the course of normal business activities. The remaining part of the investment commitments (USD 33,009 thousand) are to be realised by May of 2011.

In accordance with agreements signed by the Group, investment commitments of the Group in relation to branches of the Parent company in the Russian Federation amounted to EUR 47,808 thousand (31 December 2009: EUR 55,593 thousand).

30 Contingencies

(a) Political environment

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

(b) Insurance

The insurance industry in Russia and other CIS countries is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations in Russia and other CIS countries. In May 2008 management of the Parent Company has approved the main principles of a policy on insurance in relation to risks related to the Parent Company's activities. The policy covers risks in relation to property aspects, activities of hydro-technical equipment and highly hazardous equipment.

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

(c) Litigation

Legal proceedings

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

(in thousands of EUR)

30 Contingencies (continued)

	30 June 2010	31 December 2009
Subcontractors claims	-	10,627
Customer's complaints	961	177
	961	**10,804**

The decrease in the subcontractors claims as at 30 June 2010 compare to 31 December 2009 is caused by the approval by Moscow arbitration court in January 2010 a settlement agreement confirming the absence of indebtedness of JSC "INTER RAO UES" in favour of JSC "Ingenerniy Centre UES" (claims represented as at 31 December 2009 in the amount of EUR 10,627 thousand with request to settle the liability against the construction works performed in 2003 and 2004. All these liabilities were fully settled by JSC "Sochinskaya TPS).

In customer's complaints as at 30 June 2010 and 31 December 2009 the Group had a number of legal claims the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in the consolidated financial statements.

(d) Tax contingency

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

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

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

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

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

The Group includes a number of operating and investment companies located in a number of tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies did not change since 31 December 2009 and could amount to as much as EUR 5,522 thousand if the tax positions would be successfully challenged. In addition, the Group identified certain tax matters, which require estimates to be made of the amount of possible tax claims. The Group's best estimate of potential obligations relating to such additional exposures is EUR 19,097 thousand for both reporting periods: 30 June 2010 and 31 December 2009.

Environmental matters

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

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

(in thousands of EUR)

30 Contingencies (continued)

(e) Ownership of transmission lines

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

31 Related party transactions

a) Parent company and control relationships

As at 31 December 2009 State Corporation Rosatom held 57.34% of the voting shares of JSC INTER RAO UES. Under the additional issue of shares approved on 21 December 2009 by the shareholders of the Parent company on 18 June 2010 State Corporation Vnesheconombank purchased 529,303 million of shares under the closed subscription (see Note 1). As a result the share issue as at 30 June 2010 State Corporation Rosatom held 33.4% of the voiting shares of the Company. The Russian Federation owned 100% of State Corporation Rosatom. After that date details of operations with entities controlled by Rosatom are provided in the note (d). Information on transactions with entities of the State Corporation Rosatom is presented below:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue:		
Electricity and capacity	4,552	7,407
Other revenues	10	11
	4,562	**7,418**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Purchases:		
Purchased power and capacity	15,866	9,339
Other purchases	799	43
	16,665	**9,382**

b) Transactions with key management personnel

The members of the Management Board own 0.019% of the ordinary shares of JSC INTER RAO UES and 10% of the ordinary shares of CJSC International Power Corporation, a subsidiary of the Group.
Compensation paid to key management for their service in that capacity is made up of contractual salary and performance bonuses. Key management received the following remuneration during the year, which is included in wages, benefits and payroll taxes (see Note 24):

	Six months ended 30 June 2010	Six months ended 30 June 2009
Salaries and bonuses	**1,990**	**2,385**

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").

(in thousands of EUR)

31 Related party transactions (continued)

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 Labour Code or in full amount based on decision of Chairman of the Board. In the case of breaching certain defined provisions of the labour agreement and terminating employment at the initiative of the Group the Programme participants will lose their right to purchase the shares.

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

A total of up to 46,000,000,008 ordinary shares were allocated under the Programme. 23,000,000,004 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares obtained by JSC INTER RAO Capital (former JSC INTER RAO UES Baltic operator of the Programme, as a result of the Company's reorganization. The Programme participants can exercise the share option at any time over the period from 23 June 2010 through 23 May 2011. As of 30 June 2010 4,330,897,800 of share options were exercised. Cash proceeds for the Group amounted to EUR 805 thousand.

	All options granted under the Programme	Attributed to members of the Managements Board
Number of options as at 1 January 2009	**-**	**-**
Option agreements signed in 2008	46,000,000,008	23,000,000,004
Number of options as at 31 December 2010	**46,000,000,008**	**23,000,000,004**
Option agreements exercised during six months 2010	4,330,897,800	2,683,333,333
Number of options outstanding as at 30 June 2010	**41,669,102,208**	**20,316,666,671**

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

Share price (in EUR)	0.000619847
Exercise price (in EUR)	0.000159453
Expected volatility	110.5%
Option life	608 days
Risk-free interest rate	10.05%
Graded vesting - cummulative percentage allocation to 24.06.2008 - 30.06.2010	100%
Fair value of the option at measurement date (in EUR)	0.000509874

To determine volatility the Group used the historical volatility of the share prices of its publicly traded shares. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme.For the year ended 30 June 2010 the Group recognised an expense of EUR 2,365 thousand within employee benefit expenses in the consolidated statement of comprehensive income related to the fair value of the options.

(in thousands of EUR)

31 Related party transactions (continued)

c) Transactions with associates and jointly controlled entities

The Group's jointly controlled entities are: JSC Stantsiya Ekibastuzskaya GRES-2, JSC Industrial Power Company, JSC Kambarata HPP-1 (since May, 2009) and LLC Interenergoeffect (since March, 2010).
The Group's associate entities are: UAB Alproka and JSC TGK-11 (since November, 2009).
The Group's transactions with associates and jointly controlled entities are disclosed below.

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue:		
Jointly-controlled entities	191	-
Associate	394	6
Interest income:		
Jointly-controlled entity	1	6
Dividend income:		
Jointly-controlled entities	-	2,904
	586	**2,916**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Purchased power:		
Jointly-controlled entities	**813**	**-**

	30 June 2010	31 December 2009
Accounts receivable:		
Jointly-controlled entities	796	694
Loans issued:		
Jointly-controlled entities	197	130
	993	**824**

d) Transactions with enterprises controlled by the Russian Federation

As at 30 June 2010 State Corporation Rosatom owned 33.4%, 100% subsidiary of State Corporation Rosatom Rosenergoatom owned 11.68%, State Corporation Vneshekonombank owned 18.2958% of the voting shares of JSC INTER RAO UES. As at June 30, 2010 the State of the Russian Federation owned 100% of State Corporation Rosatom and State Corporation Vneshekonombank. Information on transactions with entities controlled by State Corporations or State Authorities of the Russian Federation presented below:

(in thousands of EUR)

31 Related party transactions (continued)

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue:		
Electricity and capacity	150,678	90,122
Other revenues:	758	348
	151,436	**90,470**
OPEX:		
Purchased power and capacity	60,013	23,621
Transmission fees/Agency fees to RAO UES	44,907	1,603
Fuel Expense (Gas)	34,199	50,069
Other purchases	54	37,339
Other expenses	5,270	834
	144,443	**113,466**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Capital expenditures	**107,337**	**56,336**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Income and expenses:		
Interest income	(109)	(726)
Interest expenses	32,149	21,827
Other finance expenses (Note 25)	54,737	-
	86,777	**21,101**

	30 June 2010	31 December 2009
Other non-current assets:		
Long-term derivative financial instruments – assets (Note 17)	49,017	-

	30 June 2010	31 December 2009
Accounts receivable:		
Trade accounts receivable gross	12,806	10,077
Less impairment provision	*(3,539)*	*(1,583)*
Trade receivables - net	9,267	8,494
Advances issued	2,396	5,050
Advances issued for CAPEX	34,711	23,578
Other receivable	5,252	1,084
	51,626	**38,206**

	30 June 2010	31 December 2009
Accounts payable:		
Trade accounts payable	20,957	7,564
AP for CAPEX	31,471	12,112
Other accounts payable	884	10,736
Advances received	119	28
Special-purpose financing (see Note 20)	333,032	216,701
	386,463	**247,141**

(in thousands of EUR)

31 Related party transactions (continued)

	30 June 2010	31 December 2009
Loans and borrowings payable:		
Short-term loans	52,375	73,401
Long-term loans	323,220	411,495
Interest on loans	1,593	2,609
	377,188	**487,505**

	30 June 2010	31 December 2009
Cash and cash equivalents:	**412,140**	**63,002**

	30 June 2010	31 December 2009
Other current assets	**-**	**691**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Financial transactions:		
Loans and borrowings received	52,495	251,807
Loans and borrowings repaid	(203,358)	(127,938)

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

e) Transactions with 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 of 30 June 2010 and 31 December 2009 are provided below:

	30 June 2010	31 December 2009
Loans and borrowings payable:		
Long-term loan received	39,281	-

(in thousands of EUR)

32 Entities under trust management

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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue:		
Electricity and capacity	3,981	3,512
Management fees:	9,005	-
	12,986	**3,512**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Purchases:		
Purchased power and capacity	40,514	25,614
Other expenses	233	20
	40,747	**25,634**

	Six months ended 30 June 2010	Six months ended 30 June 2009
Income and expenses:		
Interest income	3,441	570

	30 June 2010	31 December 2009
Accounts receivable:		
Trade accounts receivable gross	2,025	5,195
Advances issued	92	47
Loans issued	52,791	29,257
Other receivable	1,271	3,091
	56,179	**37,590**

	30 June 2010	31 December 2009
Accounts payable:		
Trade accounts payable	6,810	5,156

[1] Transactions and balances with JSC OGK-1 with subsidiary LLC Niznevartovskaya GRES for January-February 2009 are disclosed in Note 31 (d).

(in thousands of EUR)

33 Significant subsidiaries

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

	Country of incorporation	30 June 2010 Ownership/voting	31 December 2009 Ownership/voting
Distributing and trading entities			
RAO Nordic Oy[1]	Finland	100%	100%
JSC Telasi	Georgia	75%	75%
CJSC Elektricheskiye seti Armenii (Note 6)	Armenia	100%	100%
TGR Energji Elektrik Toptan Ticaret A.S.	Turkey	70%	70%
UAB INTER RAO Lietuva	Lithuania	51%	51%
LLP Kazenergoresurs (Note 6)	Kazakhstan	76%	76%
SIA INTER RAO Latvia	Latvia	51%	-
INTER RAO Eesti	Estonia	51%	-
Generating entities			
Mtkvari Energy LLC	Georgia	100%	100%
CJSC International Power Corporation	Armenia	90%	90%
CJSC Moldavskaya GRES	Moldova, Transnistria	100%	100%
JSC Ispytatelniy Stend Ivanovskoy GRES	Russian Federation	82.84%	82.84%
Holding entities			
Interenergo B.V.	Netherlands	100%	100%
Silk Road Holdings B.V.	Netherlands	100%	100%
Gardabani Holdings B.V.	Netherlands	100%	100%
ES Georgia Holdings B.V.	Netherlands	100%	100%
SAINT-GUIDON INVEST N.V.	Belgium	100%	100%
Freecom Trading Limited	Cyprus	100%	100%
INTER RAO Holding B.V.	Netherlands	100%	100%
INTER RAO Middle East B.V.	Netherlands	100%	-
Service entities			
JSC INTER RAO UES Baltic	Russian Federation	100%	100%
Energospetsserviceobslyzhivanie	Moldova, Transnistria	80%	80%
LLP INTER RAO Central Asia	Kazakhstan	100%	100%
LLC INTER RAO SERVICE	Russian Federation	99.99%	99.99%
Other entity			
LLC RAO UES INTERNATIONAL FINANCE	Russian Federation	100%	100%
JSC Eastern energy company	Russian Federation	100%	100%
INTER RAO Trust B.V.	Netherlands	100%	100%
Asia Energy B.V.	Netherlands	100%	100%
Silverteria Holdings Limited	Cyprus	100%	100%
CJSC Electrolutch (Note 6)	Russian Federation	97.78%	97.78%
OrangeWings Limited	British Virgin Island	100%	100%
LLC Inter RAO Invest	Russian Federation	100%	100%
LLP Nedra Kazakhstana (Note 6)	Kazakhstan	74.48%	74.48%

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

34 Events after the reporting period

1. Group structure

On 7 July 2010 LLC Inter RAO Invest, a Group subsidiary, acquired 50.1% of the ordinary shares of 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 companies.

On 31 August 2010 a new jointly controlled entity, LLC InterRAO-WorleyParsons, 51% of which is owned by JSC INTER RAO UES and 49% - by WORLEYPARSONS EA HOLDINGS PTY LIMITED, was registered in the Russian Federation. The main objective of the newly-established company is transfer of high-performance technologies in electricity engineering in the Russian Federation and technical support in projects of JSC INTER RAO UES in the Russian Federation and abroad.

On 1 September 2010 JSC INTER RAO Capital, a Group subsidiary, concluded share sale and purchase agreement with Fortum Power and Heat Oy, according to which the Group will purchase 25.595% of ordinary shares and 5.42% of preference shares of JSC Peterburgskaya sbytovaya kompaniya.

On 5 October 2010 LLC Power Efficiency Centre INTER RAO UES, a 100% Group's subsidiary, was registered in the Russian Federation. The newly-established company will be the unitary centre responsible for realization, coordination and control of energy efficiency and energy conservation projects.

On 30 September 2010 it was signed a President Decree according to which the Croup receives the shares of the several companies under Government control including 40% of shares of JSC Irkutskenergo and 26.43% of shares of JSC Enel OGK-5 and non-significant shares in other entities.

2. Trust Management

On 12 August 2010 the Group signed trust management agreement with JSC RusHydro, which stated that the rights for shares of JSC Altayenergosbyt (100% of ordinary shares), JSC Mosenergosbyt (50.9% of ordinary shares), JSC Obyedinennaya energosbytovaya kompaniya (100% of ordinary shares), JSC Peterburgskaya sbytovaya kompaniya (67.08% of ordinary shares and 28.98% of preference shares), JSC Saratovenergo (64.04% of ordinary shares), JSC Tambovskaya energosbytovaya kompaniya (56.01% of ordinary shares) were transferred to JSC INTER RAO UES for trust management in favour of JSC RusHydro. The transfer did not result in the termination of JSC RusHydro rights of ownership for these shares or transfer of significant influence to the Group.

During the period from July till September 2010 the following companies joined the Group under the trust management agreements with JSC FGC UES, LLC Indeks energetiki – FGC UES and LLC Indeks energetiki – HydroOGK: JSC TGK-6 (24.7% of ordinary shares), JSK Volzhskaya TGK (32.01% of ordinary shares), JSC TGK-11 (27.45% of ordinary shares), JSC Bashkirenergo (22.29% of ordinary shares) and non-significant shares in other entities.

3. Additional issue of shares by the Parent company

On 23 September 2010 the report on the additional issue of 1.6 billion shares was registered by Russian Federal Financial Markets Service.

On 30 September 2010 the Board of Directors approved the additional issue of 13.8 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each.

4. Other

On 11 October 2010 the Parent company received a waiver from the lender regarding the breached covenant mentioned in Note 19 (xix) according to which the noncompliance with this covenant as at 30 June 2010 was accepted by the lender without any fines or penalties.