

RUSHYDRO GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2009**

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

29 April 2010
Moscow, Russian Federation

RusHydro Group
Consolidated Statement of Financial Position as at 31 December 2009
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	354,847	337,117
Investments in associates and jointly controlled entities	8	18,470	15,800
Available-for-sale financial assets	9	6,845	2,011
Other non-current assets	10	21,713	14,991
Total non-current assets		401,875	369,919
Current assets			
Cash and cash equivalents	11	48,152	24,838
Accounts receivable and prepayments	12	21,652	25,685
Inventories		1,110	1,035
Other current assets	13	10,466	4,894
Total current assets		81,380	56,452
TOTAL ASSETS		483,255	426,371
EQUITY AND LIABILITIES			
Equity			
Share capital	14	269,695	245,014
Treasury shares	14	(12,172)	(8,172)
Share premium		12,005	12,005
Retained earnings and other reserves		131,561	93,790
Equity attributable to the shareholders of OJSC RusHydro		401,089	342,637
Minority interest		2,194	976
TOTAL EQUITY		403,283	343,613
Non-current liabilities			
Deferred income tax liabilities	15	32,716	34,819
Non-current debt	17	19,367	20,015
Other non-current liabilities	18	2,755	2,736
Total non-current liabilities		54,838	57,570
Current liabilities			
Current debt and current portion of non-current debt	17	2,576	3,377
Accounts payable and accruals	19	19,102	16,240
Current income tax payable		101	361
Other taxes payable	20	3,355	5,210
Total current liabilities		25,134	25,188
TOTAL LIABILITIES		79,972	82,758
TOTAL EQUITY AND LIABILITIES		483,255	426,371

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

RusHydro Group
Consolidated Income Statement for the year ended 31 December 2009
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	21	115,603	107,670
Operating expenses	22	(76,050)	(84,659)
Impairment of property, plant and equipment	7	-	(32,553)
Operating profit / (loss)		39,553	(9,542)
Finance costs	23	(14)	(1,495)
Impairment of available-for-sale financial assets	9	-	(6,464)
Share of loss of associates and jointly controlled entities	8	(616)	(1,531)
Profit / (loss) before income tax		38,923	(19,032)
Total income tax expense	15	(7,739)	(449)
Profit / (loss) for the period		31,184	(19,481)
Attributable to:			
Shareholders of OJSC RusHydro		30,667	(19,956)
Minority interest		517	475
Earnings per ordinary share for profit / (loss) attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)			
	24	0.1229	(0.0925)
Weighted average number of shares outstanding – basic and diluted			
	24	249,523,146	215,648,425

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto

29 April 2010



RusHydro Group**Consolidated Statement of Comprehensive Income for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) for the period		31,184	(19,481)
Other comprehensive income after income tax:			
Change in tax rate		-	4,622
Revaluation of property, plant and equipment, net of tax	7	-	59,113
Gains arising on available-for-sale financial assets, net of tax	9	4,640	-
Share of other comprehensive income of associates and jointly controlled entities	8	9	238
Total comprehensive income for the period		35,833	44,492
Attributable to:			
Shareholders of OJSC RusHydro		35,316	43,751
Minority interest		517	741

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

RusHydro Group**Consolidated Statement of Cash Flows for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		38,923	(19,032)
Depreciation of property, plant and equipment	7, 22	11,811	9,333
Loss on disposal of property, plant and equipment	22	5,856	303
Finance costs	23	14	1,495
Write-off and impairment of accounts receivable	22	1,008	1,088
Impairment of property, plant and equipment	7	-	32,553
Impairment of available-for-sale financial assets	9	-	6,464
Share of loss of associates and jointly controlled entities	8	616	1,531
Effect of share option plan expenses	6	230	750
Pension expenses	16	122	478
Other expenses		24	390
Operating cash flows before working capital changes and income tax paid		58,604	35,353
Working capital changes:			
Increase in accounts receivable and prepayments		(7,435)	(9,294)
(Increase) / Decrease in other current assets		(660)	2,716
(Increase) / Decrease in inventories		(81)	78
(Increase) / Decrease in other non-current assets		(2,352)	86
Increase in accounts payable and accruals		2,372	3,168
Increase in other taxes payable		284	5,760
Increase in other non-current liabilities		104	1,176
Income tax paid		(10,111)	(11,422)
Net cash generated by operating activities		40,725	27,621
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment		35	34
Purchase of property, plant and equipment		(31,896)	(25,354)
Purchase of promissory notes and other short-term investments		(6,204)	(7,549)
Purchase of entities under common control		-	(1,821)
Purchase of subsidiaries from third parties, net of cash acquired		-	(1,297)
Proceeds from sale of promissory notes and other short-term investments		2,212	980
Settlement of derivative instruments		(211)	-
Proceeds from loan redemption		-	60
Interest received		3,460	1,924
Net cash used in investing activities		(32,604)	(33,023)

The accompanying notes are an integral part of these consolidated financial statements

RusHydro Group

Consolidated Statement of Cash Flows for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term debt		320	24,672
Proceeds from long-term debt		-	150
Repayment of debt		(854)	(4,596)
Interest paid		(2,572)	(1,544)
Dividends paid by the Group in favour of minority holders		(215)	(8)
Proceeds from share issue	14,19	23,032	6,014
Purchase of treasury shares	14	(4,000)	-
Proceeds from share issue in subsidiary	14,19	2,380	-
Repayment of advances to RAO UES of Russia under investment agreements		-	(626)
Finance lease payments		(2,898)	(2,089)
Net cash generated by financing activities		15,193	21,973
Increase in cash and cash equivalents		23,314	16,571
Cash and cash equivalents at the beginning of the period		24,838	8,267
Cash and cash equivalents at the end of the period		48,152	24,838

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

RusHydro Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2009
(In millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2009		245,014	(8,172)	12,005	(77,449)	151,299	-	19,940	342,637	976	343,613
Total comprehensive income		-	-	-	-	-	4,640	30,676	35,316	517	35,833
Share issue	14	24,681	(4,000)	-	-	-	-	-	20,681	-	20,681
Effect of share options plan	6	-	-	-	-	-	-	230	230	-	230
Effect of changes in minority interest	14	-	-	-	-	-	-	2,225	2,225	914	3,139
Disposal of revaluation reserve due to disposal of property, plant and equipment		-	-	-	-	(3,669)	-	3,669	-	-	-
Dividends	14	-	-	-	-	-	-	-	-	(213)	(213)
As at 31 December 2009		269,695	(12,172)	12,005	(77,449)	147,630	4,640	56,740	401,089	2,194	403,283

RusHydro Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

Note 1. The Group and its operations

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

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

As at 31 December 2009 RusHydro Group (hereinafter referred to as “the Group”) consists of the Company and its subsidiaries. The Group’s principal subsidiaries are presented in Note 4. The Company has 20 branches across the Russian Federation, including: Bureiskaya HPP, Volzhskaya HPP, Dagestan branch, Votkinskaya HPP, Zhigulevskaya HPP, Zagorskaya HAEP, Zeiskaya HPP, Irganaiskaya HPP, Kabardino-Balkarskii branch, Kamskaya HPP, Karachaevo-Cherkesskii branch, Kaskad VV HPPs, Kaskad Kubanski HPPs, Corporate institute of electrical energy industry, Nizhegorodskaya HPP, Novosibirskaya HPP, Saratovskaya HPP, Sayano-Shushenskaya HPP named after P.S. Neporozhny, Severo-Osetinskii branch, Cheboksarskaya HPP.

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

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

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

Starting from 6 July 2009 Global Depositary Receipts (hereinafter referred to as “GDRs”) of the Company in accordance with Regulation S and Rule 144A were admitted for trade in the regulated sector of the International Order Book (IOB) of the London Stock Exchange (hereinafter referred to as “LSE”). Each GDR represents 100 ordinary shares of the Company.

On 7 August 2009 the Company launched its new Level 1 American Depositary Receipts (hereinafter referred to as “ADRs”) programme.

The United States Securities and Exchange Commission (SEC) registered the the ADR report and declared it effective as of 7 August 2009. Each ADR under the new programme represents 100 ordinary shares of the Company.

The Company’s existing GDR programme subject to Regulation S was terminated and on 7 August 2009 the GDRs were excluded from the LSE quotation list and cancelled. All GDR holders under Regulation S on the LSE quotation list as of 7 August 2009 received the appropriate quantity of Level 1 ADRs.

Starting from 7 August 2009 the ADRs under the newly launched Level 1 ADR programme have been traded both on the LSE’s Main Market and the over-the-counter market in the United States.

GDRs under Rule 144A GDR programme are traded both on the LSE’s Main Market and PORTAL system.

The Bank of New York Mellon acted as the depositary receipts programmes (ADR, Regulation S GDR and Rule 144A GDR programmes) and CJSC ING Bank (Eurasia) served as the global custodian bank for the ADR programme.

The Group was formed for the purposes of implementing the Russian Government policy in the hydropower industry, creating the conditions for effective functioning of the wholesale electricity generation market, implementing investments and capital raising strategy for the purposes of development of the hydropower industry, development and realisation of scientific and technological policy and implementation of new advanced equipment and technology, including exploration of renewable energy sources.

Accident at Sayano-Shushenskaya HPP. On 17 August 2009 an accident occurred at Sayano-Shushenskaya HPP. At the time of the accident 9 hydro turbine units were operating at Sayano-Shushenskaya HPP (hydro turbine unit No. 6 was on standby).

As a result of the accident the water emitted from the turbine crater due to the hydro turbine unit GA-2 being operated not in the recommended mode. The main generator hall was flooded. Due to the water pressure,

the rotating cross and rotors of the hydro turbine unit GA-2 the building of the main generator hall in the area of hydro turbine units GA-2, 3 and 4 was destroyed. Modules of hydro turbine units No. 7 and No. 9 were destroyed. As a result of water entry all hydro turbine units of the HPP received electric and mechanical damage of a different degree. Thus, as a result of the accident the majority of technological systems of the station were flooded or significantly damaged.

The total installed capacity of wrecked hydro turbine generators was 6,400 MW.

As a result of the accident 75 people were killed.

The Company organised the Stock Taking Commission (hereinafter referred to as "the Commission") from technical specialists and performed a stock-take. The Commission on the basis of the inspection with the use of related technical documents and diagnostic instruments determined expediency of the use of each asset and their potential recoverability. Following the above analysis the Company grouped all damaged assets as follows:

- subject to liquidation;
- subject to recovery by reconstruction and modernisation.

Following the stock take results the Company wrote-off totally unusable and non-recoverable property, plant and equipment items and made a partial write-off of property, plant and equipment items damaged as a result of the accident for the total amount of RR 5,604 million, including assets under construction in the amount of RR 148 million.

As a result of the accident Sayano-Shushenskaya HPP stopped generating electric power. In order to ensure fulfilment of its obligations under the contracts the Company had to buy the required electric power on the day-ahead market and the balancing market.

The total investment budget for a complete restoration of the damaged equipment (including costs of installation and other work) are preliminary assessed by the Company management in the amount of RR 40,000 million.

Following the examination of the prepared design and estimate documentation and its review in the Main Department of State Expertise (Glavgosexpertisa), the investment budget for a complete restoration of the station's equipment (including costs of installation and other work) will be updated.

The Company intends to finance restoration works both from equity and borrowings.

The plan of restoration works at Sayano-Shushenskaya HPP includes repairing and putting into temporary operation generators GA-6, 5, 4, 3 in 2010 (in February 2010 hydro turbine generator GA-6 was put into production run, in March 2010 – GA-5 (Note 32)).

Restoration of Sayano-Shushenskaya HPP is planned to be finalised by the end of 2014.

In accordance with the plan of restoration works the main tasks are to ensure safe operation of hydrotechnical constructions and water reservoir of Sayano-Shushenskaya HPP, to ensure safe maintenance of hydro power plant building, the main generator hall and equipment, operational capability of supporting systems as well as work, industrial and fire safety.

On 22 October 2009 the Company received the Report on the technical investigation of the causes of the accident at Sayano-Shushenskaya HPP from the Federal Service of Environmental, Technical and Nuclear Oversight (Rostekhnadzor).

On 28 December 2009 the Company received the report of the Commission of the State Duma of the Federal Assembly of the Russian Federation on its investigation of the circumstances related to the emergency situation generated by technology at Sayano-Shushenskaya HPP on 17 August 2009.

As of 31 December 2009 payments to families of those killed in the accident totalled RR 115 million.

There is a possibility of a large number of claims in connection with the accident. The subject of such claims may include:

- compensation of damage caused to life and health;
- compensation of losses from termination of contracts;
- other proceedings.

Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and

this also may result in additional claims against the Company and its employees.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- (i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- (ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.
- (iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.37 for USD 1.00 at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- (iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas 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.

Reduced revenue budgets and more challenging situation in the markets for entity's products and services have led management to perform an impairment test of the Group's property, plant and equipment (Note 7). The Group recognised no impairment loss for the year ended 31 December 2009 (for the year ended 31 December 2008: RR 32,553 million).

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

Relations with the State and current regulation. As at 31 December 2009 the Russian Federation owned 60.38 percent of the total voting ordinary shares of the Company (31 December 2008: 61.32 percent). The Group's major customer base and its contractors and suppliers include entities controlled by, or related to the State, which provide the Group with electricity dispatch, transmission and distribution services (Note 6).

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

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

The Federal Service on Tariffs (hereinafter referred to as "FST") regulates electricity and capacity tariffs by setting minimum and maximum levels of tariffs for final consumers and wholesale market, and the Regional Energy Commissions (hereinafter referred to as "RECs") set tariffs for electricity for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. The Group companies sell electricity and capacity both at free trading terms and at tariffs governed by both regulations specific to the electricity industry and regulations applicable to natural monopolies.

Since 2008 FST has calculated tariffs based on a tariff indexation formula, as opposed to the former "cost-plus" tariff system under which tariff increases were linked to the costs of a power station. Tariff indexation formulas are based on, among other things, the forecasted level of inflation, changes in the tax regime and

the amount of investment required to maintain, and in some cases, to develop the existing generation assets. The indexation formulas are applied by reference to the costs under Russian standards of accounting (hereinafter referred to as "RSA") that were used in the "cost-plus" tariffs for 2007, which is considered the reference year for the purposes of the indexation method.

The procedure for approving the Company's investment programme is regulated by Government Resolution No. 977 dated 1 December 2009. The Company's investment programme is subject to agreement with the state regulators: Russian Ministry of Energy (former Russian Ministry of Industry and Energy before restructuring), Russian Ministry of Economic Development, Russian Ministry of Finance, Russian Ministry of Industry and Trade, Federal Anti-Monopoly Service, FST, State Agency for Nuclear Energy Rosatom and local authorities. The Company's investment programme for 2010 was approved in March 2010 (Note 32).

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

Sector restructuring. In recent years, the Russian electricity industry has undergone a restructuring process regulated by the Government Resolution No. 526 "On Restructuring of the Electric Power Industry of the Russian Federation" dated 11 July 2001 (Resolution No. 526). Resolution No. 526 aimed to (i) reform the market structure, (ii) implement the liberalisation of the competitive segments of the electricity and capacity sector, including generation, sales, repairs and servicing, and (iii) improve regulatory pricing for the non-competitive lines of business of the electricity industry.

Resolution No. 526 completely transformed the overall structure of the power industry through the breaking-up the whole vertically-integrated system of power companies (AO-Energos) controlled by RAO UES and creating mono-profile companies with the following activities: generation, transmission, distribution, retail sales, repairs and servicing operations. The restructuring process was completed on 1 July 2008 when RAO UES demerged into more than 20 independent companies each engaged in either the competitive sector (power generation) or non-competitive sector (transmission and distribution).

A crucial step in developing a competitive wholesale electricity and capacity market was the adoption of the new Wholesale Electric Power and Capacity Market (NOREM) Rules of the Transitional Period (hereinafter referred to as "Rules") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 and which came into force on 1 September 2006. Under the new wholesale market framework four sectors of the electricity market were introduced:

- Regulated contracts (sales of pre-determined volumes at tariffs approved by FST),
- One-day-ahead market (electricity competitive trading, non-regulated prices),
- Balancing (deviation) electricity market (non-regulated prices), and
- Unregulated bilateral contracts (sale (purchase) of electricity and capacity at non-regulated prices).

The period from 1 September 2006 to the end of 2010 is a transitional period until the liberalisation of the wholesale electricity and capacity market is fully completed.

At the beginning of the transitional period Regulated Contracts covered almost all volume of electricity and capacity produced and sold. According to the Rules, the volumes of electricity to be covered by Regulated Contracts are expected to decline further according to the following schedule:

- from 1 January 2010 – up to 35-40 percent;
- from 1 July 2010 – up to 15-20 percent; and
- from 1 January 2011 the wholesale electricity and capacity market is expected to be fully liberalised.

On 28 June 2008 amendments to the above mentioned Rules were approved by the Government Resolution No. 476, which provide for the introduction of competitive mechanisms of capacity trading on the new wholesale market during the transitional period in the contracted volumes at regulated tariffs.

The competitive mechanisms of capacity trading under the Rules provide the suppliers with guaranteed payments at tariffs not exceeding the regulated tariffs approved by FST for capacity included in the annual forecast balance as at 1 January 2007. At the same time sales of the above capacity volumes can be made through bilateral agreements with customers at non-regulated tariffs, not limited by FST tariffs. The prices changed for capacity by new generating units which were put into operation after 1 January 2007 is not limited by regulated tariffs but should be economically justified. The compliance of suppliers with the above criteria is monitored by the wholesale trade organisation – Non-profit Partnership Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market (hereinafter referred to

RusHydro Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)*

as "NP Council Market").

Currently, the Russian Government and market participants are discussing and defining rules for a new model of the competitive capacity market, which will become effective from 2011.

In addition, the Rules do not currently contemplate the liberalisation of electricity and capacity tariffs in the Far East region of the Russian Federation, where several power stations of the Group are located.

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

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

Note 2. Basis of preparation**Statement of compliance**

These consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") and related interpretations adopted by the International Accounting Standards Board (hereinafter referred to as "IASB").

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RSA. The accompanying financial statements are based on the statutory records with adjustments and reclassification recorded for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

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

Reclassifications

The Group has revised its approach to grouping different classes of property, plant and equipment. Certain classes of assets of similar nature and use in the Group's operations were combined in new groups. In accordance with the previously adopted classification, production buildings included significant amounts of facilities which were reclassified to the corresponding group in accordance with the newly adopted classification.

**Property, plant and equipment groups for IFRS purposes
(in accordance with previously adopted classification)**

	31 December 2008	31 December 2007
Production buildings	73,331	54,815
Hydrotechnical buildings	126,004	105,525
Electricity grids	3,122	2,404
Substation's equipment	73,003	58,448
Assets under construction	48,440	41,567
Other	13,217	8,820
Total	337,117	271,579

**Property, plant and equipment groups for IFRS purposes
(in accordance with newly adopted classification)**

	31 December 2008	31 December 2007
Production buildings	33,539	23,451
Facilities	169,207	135,733
Plant and equipment	83,365	70,331
Assets under construction	48,440	41,567
Other	2,566	497
Total	337,117	271,579

The Group's management believes that the revised presentation provides for more relevant and meaningful information about the changes in the financial position of the Group.

Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009:

Adoption of IFRS 8, Operating Segments. Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body (the Board of Directors). EBITDA calculated based on RSA is used for making decisions regarding distribution of resources and for assessing results of each separate segment. The Board of Directors generally analyses information by groups of operations which are consolidated in separate reporting segments: Generation, Retailing, Research and Development Institutes, Repairs, Contractors.

Revenues of Generation and Retailing operating segments in the regulated sector of the wholesale electricity market and in the regional retail electricity market are formed on the basis of tariffs approved by FST and RECs respectively, in the unregulated sector of wholesale electricity market – on the basis of competitive prices defined on the demand / supply basis.

Revenue of Research and Development Institutes, Repairs, Contractors operating segments is formed on the basis of contracts signed with customers of the companies.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are disclosed in the segment information disclosure (Note 5).

Economic justification of each segment's expenses is based on the business plans of each segment. The Board of Directors approves the plan figures and subsequently analyses actual information against the plans on a regular basis.

Segment assets and liabilities include all assets and liabilities recognised under RSA. Segment assets, information on which is regularly reviewed by the Board of Directors, consist primarily of property, plant and equipment, assets under construction, trade accounts receivable and advances issued. Segment liabilities consist primarily of current and non-current debts, accounts payable and accruals.

Adoption of IAS 23, Borrowing Costs (revised in March 2007). The main change is the removal of the option of immediately recognising as an expense borrowing costs related to assets that take a substantial period of time to get ready for use or sale. The following revised accounting policy for borrowing costs is applied prospectively from 1 January 2009.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Adoption of IAS 1, Presentation of Financial Statements (revised in September 2007 and effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The

Group has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously "balance sheet") at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's Consolidated Financial Statements, but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Improvement to IFRS 5 in respect of classification as held for sale in case of a loss of control over a subsidiary (effective for annual periods starting from 1st July 2009) was not early adopted by the Group.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on the Consolidated Financial Statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on the Consolidated Financial Statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on the Consolidated Financial Statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on the Consolidated Financial Statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on the Consolidated Financial Statements.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (i) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (ii) requires disclosure of remaining contractual

maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in the Consolidated Financial Statements.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the “at fair value through profit or loss” category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on the Consolidated Financial Statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on the Consolidated Financial Statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The IFRS for SMEs is not applicable to the Group.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's Consolidated Financial Statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how any distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Consolidated Financial Statements.

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

IAS 27, Consolidated and Separate Financial Statements and consequential amendments to IAS 28, Investments in associates (revised in January 2008; effective for annual periods beginning on or after 1 July 2009). 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. Revised requirements also specify how an entity should measure any gain or loss arising on the loss of control of a subsidiary or loss of significant influence over an associate.

IFRS 3, Business Combinations (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer 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 will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Consolidated Financial Statements as the Group does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and better accommodate future changes. The Group concluded that the revised standard does not have any effect on the Consolidated Financial Statements.

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

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

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 standards and interpretations: 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 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. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, 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: (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (ii) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted the amendment to IAS 24 regarding partial exemption for government related entities. The new requirement is to disclose for government related entities only individually significant transactions and transactions that may be collectively significant.

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

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

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

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, *Determining Whether an Arrangement Contains a Lease* when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Consolidated Financial Statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Consolidated Financial Statements.

The Group has not early adopted any of the new standards and interpretations disclosed in the "Adoption of New or Revised Standards and Interpretations" note in its last annual Consolidated Financial Statements and effective for its annual periods beginning on or after 1 January 2010, except early adoption of IAS 24 regarding partial exemption for government related entities.

Critical accounting estimates and assumptions

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

Impairment of financial assets carried at amortised cost

Impairment is recognised as a result of the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Based on external sources of information about considerable changes in the economic situation in Russia as a result of the global financial crisis, it was decided to perform an impairment test for non-current assets.

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

Impairment of non-financial assets

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

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

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

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

The decision on impairment is made on a case-by-case basis to determine whether a decline in the fair value of an available-for-sale financial asset below its cost is significant or prolonged.

The effect of these critical accounting estimates and assumptions is disclosed in Note 9.

Provisions for liabilities and charges

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

The effect of these critical accounting estimates and assumptions is disclosed in Note 27.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the Consolidated Financial Statements.

The effect of these critical accounting estimates and assumptions is disclosed in Note 27.

Recognition of deferred tax assets

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

The effect of these critical accounting estimates and assumptions is disclosed in Note 15.

Useful life of property, plant and equipment

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

Note 3. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. Also subsidiary undertakings include entities in which the Group controls less than 50 percent of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group and are deconsolidated from the date that control effectively ceases. The minority interest has been disclosed as a separate component of equity.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated when preparing the consolidated financial statements.

Investments in associates and jointly controlled entities. Investments in associates and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control.

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

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

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

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

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

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale 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 other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

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

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

Transfers between parties under common control. Transfers of subsidiaries between parties under common control are accounted for using the predecessor values basis of accounting method. Under this

RusHydro Group

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(in millions of Russian Rubles unless noted otherwise)

method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's IFRS carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital issued is accounted for in the consolidated financial statements as an adjustment to equity (a merger reserve).

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

As at 31 December 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between RR and US Dollar (hereinafter referred to as "USD") was RR 30.24: USD 1.00 (31 December 2008: RR 29.38: USD 1.00), between RR and EURO was RR 43.39: EURO 1.00 (31 December 2008: RR 41.44: EURO 1.00).

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

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

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

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

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

Costs of minor repairs (that take less than 12 months) and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

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

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

RusHydro Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

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

Type of facility	Revised average starting from 1 January 2009
Production buildings	30-80
Facilities	31-80
Plant and equipment	5-30
Other	3-30

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

Up to 31 December 2008, borrowing costs incurred for the financing of construction of property, plant and equipment are expensed but not capitalised within the cost of property, plant and equipment. Starting from 1 January 2009 the Group capitalises borrowing costs related to new qualifying assets for which construction commenced on or after 1 January 2009.

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

Depreciation is charged once an asset is available for service.

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

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

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue, from 45 to 90 days overdue) are considered indicators that the trade receivable is impaired. Management assess the receivables using the above indicators, and make a decision about the amount of impairment at the end of each reporting period. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

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

Current and deferred income tax. The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a

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business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Deferred tax is not provided for the undistributed earnings of subsidiaries and jointly controlled entities, as it is probable that the temporary difference will not be reversed in the foreseeable future (Note 15).

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

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

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

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

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

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

Share-based payment transactions. The share option programme allows the Group employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding

rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

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

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

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

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Minority interest. Minority 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 minority's ownership percentage of these subsidiaries.

Purchases and sales of minority interests. The Group applies economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as gain or loss directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the statement of changes in equity.

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

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

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

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Note 4. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements. All subsidiaries are incorporated and operate in the Russian Federation, except for HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd, which are established under legislation of the Republic of Cyprus.

	31 December 2009		31 December 2008	
	% of ownership	% of voting	% of ownership	% of voting
OJSC B. E. Vedeneev Russian Research Institute of Hydrotechnic Engineering	100.00%	100.00%	100.00%	100.00%
CJSC HydroEngineering Sibir (former CJSC Boguchanskaya HPP)	100.00%	100.00%	100.00%	100.00%
CJSC Boguchanskaya HPP Construction Organiser	51.00%	51.00%	51.00%	51.00%
CJSC Boguchanskaya Aluminium Plant Construction Customer	51.00%	51.00%	51.00%	51.00%
OJSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
OJSC Electroremont VKK	100.00%	100.00%	100.00%	100.00%
OJSC ESKO UES	100.00%	100.00%	100.00%	100.00%
OJSC Geoterm**	79.84%	79.84%	71.61%	71.61%
OJSC Gidroinvest	100.00%	100.00%	100.00%	100.00%
OJSC Gidroremont VKK	100.00%	100.00%	100.00%	100.00%
HydroOGK Power Company Ltd	100.00%	100.00%	100.00%	100.00%
HydroOGK Aluminium Company Ltd	100.00%	100.00%	100.00%	100.00%
OJSC Karachaevo-Cherkesskaya Hydrogenerating Company	100.00%	100.00%	100.00%	100.00%
OJSC Malaya Mezenskaya TidalPP	100.00%	100.00%	100.00%	100.00%
OJSC MosoblGidroproekt	62.54%	62.54%	62.54%	62.54%
OJSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Zeiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Engineering Centre of Renewable Sources of Energy (former OJSC Novy binarny energoblok)	100.00%	100.00%	100.00%	100.00%
OJSC Prometey	100.00%	100.00%	100.00%	100.00%
OJSC REMIK	100.00%	100.00%	100.00%	100.00%
OJSC HydroWGC Management Company	100.00%	100.00%	100.00%	100.00%
OJSC RESK	90.52%	90.52%	90.52%	90.52%
OJSC SSh ATC	100.00%	100.00%	100.00%	100.00%
OJSC SShGER	100.00%	100.00%	100.00%	100.00%
OJSC NIIES	100.00%	100.00%	100.00%	100.00%
LLC SpetsEnergoService	100.00%	-	100.00%	-
OJSC Sulaksky Gidrokaskad	100.00%	100.00%	100.00%	100.00%
CJSC Technopark Rumyantsevo	100.00%	100.00%	100.00%	100.00%
OJSC Turboremont VKK	100.00%	100.00%	100.00%	100.00%
OJSC Verhne-Mutnovskaya GeoES**	86.18%	95.81%	56.03%	59.16%
OJSC Zagorskaya HAEPP-2	100.00%	100.00%	100.00%	100.00%
OJSC Zaramagskie HPPs	95.45%	95.45%	95.45%	95.45%
OJSC Yuzhno-Yakutsky GEK	100.00%	100.00%	100.00%	100.00%
OJSC Kolymaenergo	64.27%	64.27%	64.27%	64.27%
OJSC Ust'-Srednekanskaya HPP**	48.75%	72.82%	51.86%	77.85%
OJSC Ust'-Srednekangesstroy*	64.27%	100.00%	64.27%	100.00%
OJSC Krasnoyarskenergosbyt*	51.75%	66.36%	51.75%	51.75%
OJSC ESK RusHydro	100.00%	100.00%	100.00%	100.00%
LLC Index Energetiki – HydroWGC	100.00%	-	100.00%	-
	75.00%-	75.00%-	75.00%-	75.00%-
OJSC Chirkeygesstroy	1 share	1 share	1 share	1 share
OJSC Lengidroproekt	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Kureiskaya HPP***	100.00%	100.00%	-	-
OJSC Pauzhetskaya GeoES***	100.00%	100.00%	-	-
OJSC Dalnevostochnaya WPS***	100.00%	100.00%	-	-
LLC Management on restoration and reconstruction of Sayano-Shushenskaya HPP***	100.00%	-	-	-

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

** Changes in ownership and voting rights (Note 14).

*** New subsidiaries established and acquired in the year ended 31 December 2009.

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Note 5. Segment information

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

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

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

All other segment assets include assets under construction which will be transferred to generation segment on their completion. All other segment liabilities consist primarily of intercompany current and non-current debts, accounts payable and accruals.

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

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

Segment information for the years ended 31 December 2009 and 31 December 2008 based on the amounts of the RSA business plans is presented below:

	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
Year ended 31 December 2009							
Revenue from external customers	79,254	32,388	1,164	628	1,945	659	116,038
Intersegment revenue	1,661	-	1,190	2,740	5,052	855	11,498
Total revenue	80,915	32,388	2,354	3,368	6,997	1,514	127,536
EBITDA (RSA)*	50,838	1,175	209	235	215	310	52,982
Total reportable segment assets	498,387	6,285	1,435	1,223	5,079	85,778	598,187
Total reportable segment liabilities	36,931	3,573	816	977	4,014	66,400	112,711
Capital expenditure**	18,912	75	64	149	109	13,746	33,055

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

** Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2009

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	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
Year ended 31 December 2008							
Revenue from external customers	63,674	38,969	475	282	2,370	671	106,441
Intersegment revenue	809	-	2,447	1,329	5,271	611	10,467
Total revenue	64,483	38,969	2,922	1,611	7,641	1,282	116,908
EBITDA (RSA)*	32,004	1,272	497	91	476	331	34,671
Total reportable segment assets	464,687	4,429	1,647	526	2,867	68,142	542,298
Total reportable segment liabilities	38,280	2,369	883	399	1,816	49,131	92,878
Capital expenditure**	18,750	79	107	22	88	12,984	32,030

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

** Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

A reconciliation of the reportable segments results to the Consolidated Financial Statements for the years ended 31 December 2009 and 31 December 2008 is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Total revenues from reportable segments (RSA)	126,022	115,626
Revenues from all other segments	1,514	1,282
Differences in revenue recognition under IFRS	(338)	1,126
Elimination of intersegment revenues	(11,498)	(10,467)
Other	(97)	103
Total revenue (IFRS)	115,603	107,670

	Year ended 31 December 2009	Year ended 31 December 2008
EBITDA for reportable segments (RSA)	52,672	34,340
EBITDA from all other segments	310	331
Finance lease adjustment	1,218	1,418
Impairment charge related to property, plant and equipment (Note 7)	-	(32,553)
Effect of share option plan (Note 6)	(230)	(750)
Write-off and impairment of accounts receivable (Note 22)	(1,008)	(1,088)
Depreciation and amortisation (under IFRS) (Note 22)	(11,811)	(9,333)
Other	(1,598)	(1,907)
Operating profit / (loss) (IFRS)	39,553	(9,542)

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

	31 December 2009	31 December 2008
Total reportable segment liabilities (RSA)	46,311	43,747
Liabilities from all other segments	66,400	49,131
Deferred tax	31,195	34,048
Finance lease adjustment	2,156	2,922
Pension adjustment	1,560	1,321
Adjustment on derivative financial instruments	1,180	422
Financial instruments at amortised cost	(2,254)	(2,552)
Elimination of intercompany balances	(67,296)	(47,432)
Other	720	1,151
Total liabilities (IFRS)	79,972	82,758

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

	31 December 2009	31 December 2008
Total reportable segment assets (RSA)	512,409	474,156
Assets from all other segments	85,778	68,142
Adjustment on investments in associates	5,720	(18,666)
Finance lease adjustment	2,172	2,306
Property plant and equipment adjustments	1,151	5,760
Fair value of available-for-sale financial assets	(535)	(11,109)
Write-off and impairment of accounts receivable	(999)	(1,131)
Unrealised profit adjustment	(1,530)	(1,286)
Reversal of interest expenses capitalised in RSA	(2,890)	(2,188)
Financial instruments at amortised cost	(4,675)	(692)
Treasury shares adjustment	(12,651)	(8,761)
Elimination of investments in subsidiaries	(33,068)	(32,542)
Elimination of intercompany balances	(67,296)	(47,432)
Other	(331)	(186)
Total assets (IFRS)	483,255	426,371

Note 6. Related party transactions

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

Before 30 June 2008, the Group was under the control of RAO UES which was liquidated as at 1 July 2008. Therefore, the related parties of the Group included RAO UES and its subsidiaries and associates till 30 June 2008.

The Group's principal related parties for the year ended 31 December 2009 were jointly controlled entities and associates of the Group (Note 8) and other entities controlled by the State.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the year ended 31 December 2009 and year ended 31 December 2008, had significant balances outstanding as at 31 December 2009 and 31 December 2008 is detailed below.

RAO UES

The Group's retailing companies paid transmission fees to RAO UES during the six months ended 30 June 2008 in the amount of RR 756 million.

RAO UES subsidiaries and associates

Transactions with subsidiaries and associates of RAO UES were as follows:

	Note	Six months ended 30 June 2008
Sales of electricity and capacity	21	11,151
Other revenue	21	3
Purchased electricity and capacity	22	2,806
Electricity distribution expenses	22	3,442
Other expenses		28

Transactions with former RAO UES subsidiaries and associates which are controlled by the State for the second half of the year ended 31 December 2008 and for the year ended 31 December 2009 are included in transactions with state-controlled entities.

State-controlled entities

In the normal course of business the Group enters into transactions with entities controlled by the State. Prices for electricity are based on tariffs set by FST and RECs. Loans are provided at market rates. Taxes are accrued and paid under the Russian tax legislation. The transmission and distribution of electricity are subject to tariff regulations.

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The Group had the following significant balances with state-controlled entities:

	Note	31 December 2009	31 December 2008
Other non-current and current assets (promissory notes and deposits)	10,13	7,490	7,740
Cash and cash equivalents	11	44,606	23,409
Trade and other accounts receivable	12	2,694	2,806
Advances to suppliers	12	130	-
Payables to the Federal Agency for State Property Management in respect of share issuance	19	4,330	6,000
Payables to the Federal Energy Agency	19	1,590	2,450
Trade and other accounts payable	19	1,673	365
Advances received	19	39	148
Non-current and current debt	17	1,282	1,669

The Group had the following significant transactions with state-controlled entities:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity	21	28,905	12,896
Other revenue	21	2,695	2,439
Purchased electricity and capacity	22	7,119	3,211
Electricity distribution expenses	22	9,367	4,366
Services of SO-UES	22	1,941	2,350
Interest income	23	3,873	984
Other expenses		1,504	594

Associates

The Group had the following balances with its associates:

	Note	31 December 2009	31 December 2008
Trade and other accounts receivable	12	116	32
Other current assets	13	40	40
Trade and other accounts payable	19	-	22

The Group had the following transactions with its associates:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Other revenue	21	15	8
Purchased electricity and capacity	22	471	158
Other expenses		4	7

Jointly controlled entities

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

	Note	31 December 2009	31 December 2008
Trade and other receivables	12	32	-
Promissory notes receivable	10,12	9,592	7,280
Advances received	19	242	218
Trade and other accounts payable	19	6	16

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

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity	21	96	104
Other revenue	21	311	384
Other expenses		3	6

Key management of the Group. Compensation is paid to the members of the Management Board of the

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

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

Total remuneration paid to the members of the Management Board and Board of Directors of the Company for the year ended 31 December 2009 was RR 115 million (for the year ended 31 December 2008: RR 96 million).

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

The Programme provides for the granting of share options at predetermined fixed price to the Programme participants starting from the date of signing the first share option contract, i.e. from 3 September 2007.

In accordance with the Programme the Programme participants sign agreements to purchase the Company's shares under which the property title to the shares is transferred and payment is made after 3 years, starting from 3 September 2007.

Participation in the Programme and the exact number of shares in the participants' individual share option agreements are determined by decision of the Chairman of Management Board of the Company.

A total of up to 3,137,287,475 ordinary shares were allocated under the Programme as at 3 September 2007. 917,656,581 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 LLC EZOP, operator of the Programme, as a result of the Company's additional share issue.

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. In the case of breaching certain defined provisions of the labor agreement and terminating employment at the initiative of the Group, the Programme participants will lose their right to purchase the shares.

One of the vesting terms of the share option is prepayment by the members of the Company's Management Board (in the amount of 10 percent of the share option agreement) and by other Programme participants (in the amount of 0.2 percent of the share option agreement).

In 2007 the Company issued non-interest bearing loans, which should be used by individuals to make prepayments for the share options agreements to the employees who are the Programme participants. The loans will be repaid by 31 March 2011. As at 31 December 2009 the amount of loans issued to employees amounted to RR 161 million (net of discount of RR 19 million, effective interest rate – 11.8 percent). As at 31 December 2008 the amount of loans issued to employees was RR 148 million (net of discount of RR 47 million, effective interest rate – 11.8 percent).

The Programme participants can exercise the share option at any time over the period from 2 September 2010 through 16 April 2011. On 11 February 2010 the Company's Board of Directors approved the amendments to the Share Option Programme, which extend the period during which the participants can exercise their options up to 2 years after 2 September 2010 (Note 32).

The number of undistributed shares as at 31 December 2009 was 445,106,491 including forfeited options.

RusHydro Group**Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)*

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

	All options granted under the Programme	Attributed to members of the Managements Board
Number of options as at 1 January 2008	1,685,127,092	917,656,581
Option agreements signed in 2008	1,229,347,156	-
Reclassification out of Management Board category	-	(86,275,405)
Options forfeited in 2008	(156,745,999)	(133,334,717)
Number of options as at 1 January 2009	2,757,728,249	698,046,459
Option agreements signed in 2009	118,335,752	-
Reclassification out of Management Board category	-	(487,109,677)
Options forfeited in 2009	(183,883,017)	(30,542,753)
Number of options outstanding as at 31 December 2009	2,692,180,984	180,394,029

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

Share price (in RR)	1.73
Exercise price (in RR)	1.73
Expected volatility	27.00%
Option life	1,096 days
Risk-free interest rate	6.13%
Fair value of the option at measurement date (in RR)	0.456

To determine volatility the Group used the historical volatility of the share prices of publicly traded shares of peer group companies. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme.

For the year ended 31 December 2009 the Group recognised an expense of RR 230 million within employee benefit expenses related to the fair value of the options (for the year ended 31 December 2008: RR 750 million).

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Note 7. Property, plant and equipment

Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2008	37,905	193,808	90,688	89,403	2,992	414,796
Additions	80	87	2,396	32,866	164	35,593
Transfers	1,490	9,584	5,263	(16,967)	630	-
Disposals (including write-off)	(690)	(545)	(5,014)	(232)	(90)	(6,571)
Closing balance as at 31 December 2009	38,785	202,934	93,333	105,070	3,696	443,818
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2008	(4,366)	(24,601)	(7,323)	(40,963)	(426)	(77,679)
Charge for the period	(660)	(3,363)	(7,558)	-	(327)	(11,908)
Transfers	(363)	(1,519)	(1,116)	2,998	-	-
Disposals	24	153	354	51	34	616
Closing balance as at 31 December 2009	(5,365)	(29,330)	(15,643)	(37,914)	(719)	(88,971)
Net book value as at 31 December 2009	33,420	173,604	77,690	67,156	2,977	354,847
Net book value as at 31 December 2008	33,539	169,207	83,365	48,440	2,566	337,117

Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2007	27,385	152,472	77,223	68,941	1,944	327,965
Revaluation reserve (net)	11,767	41,941	19,985	-	198	73,891
Transfers	313	6,035	3,832	(10,605)	425	-
Additions	287	229	772	31,216	1,423	33,927
Disposals	(58)	(73)	(250)	(149)	(88)	(618)
Elimination of accumulated depreciation	(1,789)	(6,796)	(10,874)	-	(910)	(20,369)
Closing balance as at 31 December 2008	37,905	193,808	90,688	89,403	2,992	414,796
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2007	(3,934)	(16,739)	(6,892)	(27,374)	(1,447)	(56,386)
Charge of impairment	(1,696)	(11,705)	(5,913)	(14,150)	289	(33,175)
Reversal of impairment	114	80	85	329	14	622
Charge for the year	(549)	(3,090)	(5,496)	-	(198)	(9,333)
Transfers	(113)	(6)	(42)	232	(71)	-
Disposals	23	63	61	-	77	224
Elimination of accumulated depreciation	1,789	6,796	10,874	-	910	20,369
Closing balance as at 31 December 2008	(4,366)	(24,601)	(7,323)	(40,963)	(426)	(77,679)
Net book value as at 31 December 2008	33,539	169,207	83,365	48,440	2,566	337,117
Net book value as at 31 December 2007	23,451	135,733	70,331	41,567	497	271,579

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2009 such advances amounted to RR 11,452 million (31 December 2008: RR 6,793 million).

Additions to assets under construction include capitalised borrowing costs of RR 16 million. The capitalisation rate was 15.16 percent. Up to 31 December 2008, borrowing costs incurred to finance the construction of property, plant and equipment are expensed.

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

other equipment.

The assets transferred to the Group did not include the land on which the Group's buildings and facilities are situated. Use and alienability of the land are regulated by the Land Code of the Russian Federation. According to the Land Code the plots of land located under hydraulic engineering structures are limited in their alienability and shall not be conveyed to become private property, except for the cases established by federal laws.

Accident at Sayano-Shushenskaya HPP. In connection with the accident at Sayano-Shushenskaya HPP (Note 1) the Company wrote-off as disposals totally unusable and non-recoverable property, plant and equipment items and made a partial write-off of property, plant and equipment items damaged as a result of the accident for the total amount of RR 5,604 million, including assets under construction in the amount of RR 148 million.

Property, plant and equipment items amounting to RR 4,642 million (net book value at the date of the accident) will be reconstructed and require replacing major parts or components over period of more than twelve months. Depreciation of these assets ceased from the moment of accident. For the purpose of the above disclosure such assets were not reclassified to the category "assets under construction".

Impairment as at 31 December 2009 and 31 December 2008. Management of the Company analysed the current economic situation and decided that indicators of impairment existed at the end of the reporting period due to the volatility of markets and the ongoing global financial and economic crisis (Note 1). Cash flow testing was performed to calculate the value in use of property, plant and the equipment. The Company's branches and subsidiaries were considered to be separate cash-generating units. The following key assumptions were used when the cash flow testing was performed:

- For the year ended 31 December 2009 cash flows were projected based on the actual operating results and business plans for 2010 – 2013 and for the year ended 31 December 2008 – based on the actual operating results and business plans for 2009 – 2012;
- A post-tax discount rate of 14.0 percent was applied in determining the recoverable amount of the plants for the year ended 31 December 2009 (31 December 2008: 13.8 percent). The discount rate was estimated based on the average weighted average cost of capital;
- The forecast period was 11 years for most cash-generating units for the year ended 31 December 2009 (for the year 31 December 2008: 12 years). Management considers that forecast period greater than five years is appropriate due to the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will be not stabilised after only five years. Subsequently, a terminal value was calculated based on forecasted growth rates of 3.2 percent (year ended 31 December 2008: 2.1 percent);
- The forecast of electricity and capacity prices for 2010 – 2020 in the year ended 31 December 2009 was based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency. For the year ended 31 December 2008 the Company's forecasts were used;
- The forecast of electricity and capacity prices for 2010 used in the cash flow testing in the year ended 31 December 2009 includes uplift in tariff in the amount of investment required to finance capital expenditure (hereinafter referred to as "investment uplift in tariff"). The investment uplift in tariff is then excluded from cash-flows to assess net value in use. The electricity and capacity prices for 2011 – 2020 do not include the investment uplift in tariff;

The forecast electricity and capacity prices used in the cash flow testing in the year ended 31 December 2008 for 2009 – 2020 included the investment uplift in tariff. The investment uplift in tariff was then excluded from cash flows to assess net value in use;

- The electricity and capacity volumes for the period 2010 – 2021 were based on the Company's management assessment of future trends;
- The forecast of the capital expenditures used in the cash flow testing in the year ended 31 December 2009 is based on the Company's short term investment programme for 2010 and medium-term investment programme for 2011 – 2015, and set at an amount equal to the depreciation charge for 2016 – 2020. The Company's short-term investment programme for 2010 and medium-term investment programme for 2011 – 2015 include capital expenditures related to the restoration works at Sayano-Shushenskaya HPP (Note 1). The forecast of capital expenditures used in the cash flow testing in the year ended 31 December 2008 was based on the Company's medium-term investment programme for 2009 – 2013, and set at an amount equal to the depreciation charge for 2014 – 2020;

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

As at 31 December 2009 no impairment has been identified for the property, plant and equipment.

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future electricity and capacity prices. If the electricity and capacity prices were 10 percent lower in the forecasted period, there would be an impairment loss of RR 8,867 million recognised as at 31 December 2009.

As at 31 December 2008 the Group recognised an additional impairment in the amount of RR 33,175 million for a number of cash-generating units and the reversal of the previously recognised impairment loss in the amount of RR 622 million for some cash-generating units.

Revaluation as at 31 December 2009 and 31 December 2008. As at 31 December 2009 the Group did not perform the revaluation of property, plant and equipment considering that the carrying amount does not differ materially from the fair value at the end of the reporting period.

As at 31 December 2008 the Group performed the revaluation of property, plant and equipment (except for assets under construction, office buildings and land) using an independent appraiser. As a result of the revaluation, the Group's equity increased by RR 63,256 million, comprising an increase in the carrying value of property, plant and equipment of RR 79,070 million, net of a deferred tax liability of RR 15,814 million.

Where the recoverable value was lower than the carrying value of the property, plant and equipment before the revaluation performed as at 31 December 2008, but above the historic carrying value excluding the effect of past revaluations, the reduction in the carrying value was taken directly to equity and shown as a reduction in the historically recognised revaluation surplus.

The Group's equity decreased by RR 4,143 million, comprising a decrease in the carrying value of property, plant and equipment of RR 5,179 million, net of a related deferred tax asset of RR 1,036 million.

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

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2009	15,698	77,617	45,259	67,157	1,600	207,331
Net book value as at 31 December 2008	14,978	71,394	42,971	48,440	1,001	178,784

Leased property, plant and equipment. The Group leases property, plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2009 the net book value of leased property, plant and equipment was RR 5,746 million (31 December 2008: RR 3,883 million). The leased equipment is pledged as a security for the lease obligation.

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

	31 December 2009	31 December 2008
Less than one year	440	337
Between one year and five years	1,499	1,264
After five years	10,812	10,561
Total	12,751	12,162

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. The leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

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Note 8. Investments in associates and jointly controlled entities

As at 31 December 2009 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2008	Share of profit / (loss) of associates and jointly controlled entities	Charged directly to other comprehensive income	Carrying value as at 31 December 2009
Associates				
OJSC Corporation of South Yakutiya development	29	3	-	32
OJSC GVC Energetiki	148	(22)	-	126
OJSC WGC-1	11,110	622	5	11,737
OJSC UEMC	72	(35)	-	37
CJSC Boguchansky Aluminium Plant Construction Organiser	1	-	-	1
Total associates	11,360	568	5	11,933
Jointly controlled entities				
BoGES Group**	4,271	2,179*	-	6,450
BALP Group***	65	(65)	-	-
LLC Corporation of Zabaikalie Development	11	(4)	-	7
OJSC Corporation of Krasnoyarsk region development	30	2	-	32
RusSUNHydroLimited	63	(19)	4	48
Total jointly controlled entities	4,440	2,093	4	6,537
Total investments in associates and jointly controlled entities	15,800	2,661*	9	18,470

* Share of profit / (loss) of associates and jointly controlled entities does not contain the effect of elimination of profit in BoGES Group resulted from renegotiation of the terms of the promissory notes (Note 10) in the amount RR 3,277 million. This profit was eliminated from Group's share of results of associates and jointly controlled entities and from the finance costs of the Group (Note 23).

** BoGES Group consists of BoGES Ltd and OJSC Boguchanskaya HPP

*** BALP Group consists of BALP Ltd and CJSC Boguchansky aluminium plant

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As at 31 December 2008 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2007	Additions	Share of profit / (loss) of associates and jointly controlled entities	Charged directly to equity	Other movements	Carrying value as at 31 December 2008
Associates						
OJSC Corporation of South Yakutiya development	33	-	(4)	-	-	29
OJSC GVC Energetiki	-	152	(4)	-	-	148
OJSC WGC-1	-	10,708	249	153	-	11,110
OJSC UEMC	-	72	-	-	-	72
CJSC Boguchansky Aluminium Plant Construction Organiser	-	-	1	-	-	1
Total associates	33	10,932	242	153	-	11,360
Jointly controlled entities						
BoGES Group	5,082	-	(886)	75	-	4,271
BALP Group	865	-	(855)	-	55	65
LLC Corporation of Zabaikalie Development	17	-	(6)	-	-	11
OJSC Corporation of Krasnoyarsk region development	30	-	-	-	-	30
RusSUNHydroLimited	79	-	(26)	10	-	63
Total jointly controlled entities	6,073	-	(1,773)	85	55	4,440
Total investments in associates and jointly controlled entities	6,106	10,932	(1,531)	238	55	15,800

As at 31 December 2009 the investment in BALP Group was written-off in full amount as the Group's interest in jointly controlled entity's loss exceeded the carrying value of the investment in the jointly controlled entity. Unrecognised loss of BALP Group for the year ended 31 December 2009 was RR 1,647 million (for the year ended 31 December 2008: RR 1,967 million).

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The following is the summarised financial information, in aggregate, related to significant associates and jointly controlled entities:

31 December 2009	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Income / (Expenses)	Profit / (Loss)
Associates							
OJSC Corporation of South Yakutiya development	25.10	25.10	134	(6)	27	(15)	12
OJSC GVC Energetiki	42.53	42.53	490	(195)	51	(104)	(53)
OJSC WGC-1	22.69	22.69	73,587	(21,850)	49,292	(46,550)	2,742
OJSC UEMC	20.67	20.67	332	(6)	-	(171)	(171)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	2	(2)	37	(37)	-
CJSC Boguchansky Aluminium Plant Construction Organiser	49.00	49.00	159	(156)	153	(152)	1
Jointly controlled entities							
BoGES Group	50.00	50.00	40,528	(27,728)	1,183	3,175*	4,358
BALP Group	50.00	50.00	16,198	(18,783)	17	751	769
LLC Corporation of Zabaikalie Development	50.00	50.00	13	(1)	-	(9)	(9)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	131	(1)	-	9	9
RusSUNHydroLimited	50.00	50.00	106	(13)	-	(39)	(39)

* Includes profit resulted from the renegotiation of the terms of the promissory notes (Note 10).

31 December 2008	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Income / (Expenses)	Profit / (Loss)
Associates							
OJSC Corporation of South Yakutiya development	25.10	25.10	141	(25)	53	(69)	(16)
OJSC GVC Energetiki	42.53	42.53	644	(297)	123	(132)	(9)
OJSC WGC-1	22.69	22.69	70,411	(21,446)	25,120	(24,020)	1,100
OJSC UEMC	20.67	20.67	355	(6)	141	(143)	(2)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	4	(4)	46	(46)	-
CJSC Boguchansky Aluminium Plant Construction Organiser	49.00	49.00	157	(155)	250	(249)	1
Jointly controlled entities							
BoGES Group	50.00	50.00	30,983	(22,442)	225	(1,997)	(1,772)
BALP Group	50.00	50.00	14,130	(18,035)	126	(5,769)	(5,643)
LLC Corporation of Zabaikalie Development	50.00	50.00	22	(1)	-	(13)	(13)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	122	-	8	(8)	-
RusSUNHydroLimited	50.00	50.00	140	(14)	-	(51)	(51)

In 2008, as a result of the reorganisation of RAO UES, the Company received shares of associates OJSC WGC-1, OJSC GVC Energetiki and OJSC UEMC. The assets and liabilities of the associates transferred under common control are recognised at the predecessor entity's carrying amounts.

Included in investments in associates and jointly controlled entities is a 22.69 percent interest in OJSC WGC-1 in the amount of RR 11,737 million as at 31 December 2009 (31 December 2008: RR 11,110 million). On 12 March 2009 the Company signed a trust management agreement with OJSC INTER RAO UES, which stated that the rights for shares of OJSC WGC-1 were transferred to OJSC INTER RAO UES for trust management in favour of the Company. The transfer did not result in the termination of the Group's rights of ownership for these shares. As at 31 December 2009 there are three representatives of the Company in the Board of Directors of OJSC WGC-1. Therefore the Group continues to exercise significant influence over OJSC WGC-1 as at 31 December 2009.

On 13 November 2009 the Company's Board of Directors approved an additional issue of 38,000,000,000 shares of OJSC WGC-1 in favour of OJSC INTER RAO UES. The decision on the additional issue was

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approved by the General meeting of shareholders of OJSC WGC-1 in December 2009. Following the issue the Group's interest in the share capital of OJSC WGC-1 is expected to be diluted from 22.69 percent to 12.26 percent. The retained investment in OJSC WGC-1 will be measured at its fair value at the moment when significant influence is lost.

Note 9. Available-for-sale financial assets

In 2008, as a result of the reorganisation of RAO UES, the Company obtained a 100 percent interest in LLC Index Energetiki – HydroWGC, which holds investments in various utilities companies. These investments are classified as available-for-sale financial assets in the Consolidated Financial Statements and accounted for at fair values as at the date of receipt of these investments on 1 July 2008.

The fair values of the available-for-sale financial assets were calculated based on the quoted market prices or, where the quotations were not available, based on valuation techniques.

The analysis of trading volumes for the years ended 31 December 2009 and 31 December 2008 confirmed that there were no reductions in the trading activity or significant changes in the free float or other circumstances and therefore that an active market existed.

The Group assessed the available-for-sale financial assets for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of an investment of an equity instrument below its cost. The impairment of these investments as at 31 December 2008 totalled RR 6,464 million and was recorded through profit and loss.

As at 31 December 2009 gains arising on these available-for-sale financial assets during the year ended 31 December 2009 totalled RR 4,640 million, net of tax (Note 15), and were recorded within other comprehensive income.

The Company's management does not have an intention to sell the shares in the short-term period.

The fair value hierarchy of available-for-sale financial assets into which their fair values are categorised is disclosed in Note 30.

Note 10. Other non-current assets

	31 December 2009	31 December 2008
Promissory notes and deposits (Net of discount of RR 3,889 million, due 2010 – 2014 as at 31 December 2009 and RR 1,001 million, due 2010 as at 31 December 2008)	24,728	14,166
Long-term loans receivable (Net of discount of RR 87 million as at 31 December 2009 and RR 125 million as at 31 December 2008)	219	213
Total financial assets	24,947	14,379
VAT recoverable	3,065	1,311
Other long-term assets (Net of provision for accounts receivable impairment of RR 243 million, effective interest rate: 11.76% – 16.00%, due 2011 – 2020 as at 31 December 2009 and RR 231 million, effective interest rate: 11.76% – 16.00%, due 2010 – 2020 as at 31 December 2008)	1,907	1,524
Less current portion of promissory notes and deposits (Note 13)	(8,206)	(2,223)
Total other non-current assets	21,713	14,991

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Promissory notes and deposits	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2009	31 December 2008
Promissory notes						
OJSC Boguchanskaya HPP	-	-	12.00%	2012	8,408	-
LLC Energo-finance	-	-	13.00%	2014	6,899	-
				not earlier		
OJSC VTB bank	Baa1	Moody's	7.00%	2010	5,689	5,312
CJSC Boguchansky Aluminium Plant	-	-	12.00%	2012	1,184	-
				not earlier		
OJSC Evrofinance Mosnarbank	Ba3	Moody's	No interest	2013	1	-
			9.20% –	not earlier		
LLC FC Otkritie	-	-	9.60%	2010	-	6,337
Long-term deposits						
OJSC KIT Finance Investment bank	-	-	13.00%	2010	2,517	2,517
			11.90% –			
OJSC Sberbank of Russia	Baa1	Moody's	13.50%	2011	30	-
Total promissory notes and deposits					24,728	14,166

The Group together with RUSAL Group is involved in two investment projects, the construction of Boguchanskaya HPP and Boguchansky aluminium plant (hereinafter referred to as "BEMA project" (Note 27). The BEMA project is financed through the purchase of interest-free promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant. As at 31 December 2009 the line Promissory notes included outstanding promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant recognised at amortised cost net of discount of RR 3,409 million and RR 480 million respectively. As at December 2008 the promissory notes were recognised as accounts receivable and prepayments (Note 12) and reclassified to other non-current assets as at 31 December 2009 due to renegotiation of their settlement terms.

In December 2009 the promissory notes of LLC FC Otkritie were exchanged for interest-bearing promissory notes of LLC Energo Finance secured with the guarantee of Rusenergo Fund Limited, with a 13 percent annual interest rate payable on demand, but not earlier than 12 December 2014, at the total amount of RR 6,899 million under the contract with Sotserento Limited. At the date of the transaction the carrying value of promissory notes of LLC FC Otkritie was equal to the fair value of interest-bearing promissory notes of LLC Energo Finance.

Note 11. Cash and cash equivalents

	31 December 2009	31 December 2008
Cash at bank and in hand	5,971	7,061
Cash equivalents (contractual interest rate: 0.21% – 11.5%)	42,181	17,777
Total cash and cash equivalents	48,152	24,838

Cash equivalents held as at 31 December 2009 and 31 December 2008 comprised short-term bank deposits and short-term bank promissory notes with original maturities of three months or less.

Cash and cash equivalents balances denominated in USD currency as at 31 December 2009 were RR 320 million (31 December 2008: RR 1 million). Cash and cash equivalents balances denominated in EURO were RR 1,258 million as at 31 December 2009 (31 December 2008: RR 13 million).

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Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2009	31 December 2008
Bank deposits and promissory notes				
OJSC Gazprombank	BB	Standard & Poor's	20,675	-
OJSC Sberbank of Russia	Baa1	Moody's	13,618	9,981
CJSC VTB24	Baa1	Moody's	5,660	7,116
CJSC Raiffeisenbank	BBB-	Standard & Poor's	1,171	-
OJSC Alfa-Bank	B+	Standard & Poor's	578	-
OJSC NRBank	B	Fitch Ratings	280	-
OJSC Bank Vozrozhdenie	B+	Standard & Poor's	170	275
OJSC Evrofinance Mosnarbank	Ba3	Moody's	24	-
OJSC Commercial Bank of Support to Commerce and Business	B-	Fitch Ratings	5	5
OJSC Alemar Bank	-	-	-	400
Total cash equivalents			42,181	17,777
Cash at banks				
OJSC Gazprombank	BB	Standard & Poor's	3,216	5,277
OJSC Sberbank of Russia	Baa1	Moody's	1,095	622
OJSC Alfa-Bank	B+	Standard & Poor's	505	159
OJSC CB Sotsgorbank	B-	Standard & Poor's	284	99
OJSC VTB	Baa1	Moody's	227	67
Other	-	-	644	837
Total cash at banks			5,971	7,061

Note 12. Accounts receivable and prepayments

	31 December 2009	31 December 2008
Trade receivables		
(Net of provision for accounts receivable impairment of RR 2,714 million as at 31 December 2009 and RR 1,953 million as at 31 December 2008)	7,095	6,363
Promissory notes	383	8,648
Total financial assets	7,478	15,011
Advances to suppliers and prepayments		
(Net of provision for accounts receivable impairment of RR 165 million as at 31 December 2009 and RR 15 million as at 31 December 2008)	900	1,180
Income tax receivables	1,774	2,059
Value added tax recoverable	4,091	6,284
Other prepaid taxes	102	44
Other receivables		
(Net of provision for accounts receivable impairment of RR 14 million as at 31 December 2009 and RR 37 million as at 31 December 2008)	7,307	1,107
Total accounts receivable and prepayments	21,652	25,685

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

A major part of other receivables includes insurance compensation for the accident at Sayano-Shushenskaya HPP due from OJSC IC Rosno in the amount of RR 6,046 million (Note 22).

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analyses of expected future cash flows (Note 3). The Group believes that the Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

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

	Year ended 31 December 2009	Year ended 31 December 2008
As at 1 January	2,005	1,074
Charge for the year	1,765	1,202
Reversal of impairment	(845)	(170)
Trade receivables written-off as uncollectible	(32)	(101)
As at 31 December	2,893	2,005

As at 31 December 2009 the accounts receivable of RR 2,499 million (31 December 2008: RR 2,274 million) were past due but not impaired. These receivables relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

31 December 2009	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	65	36	1,229	1,169	2,499
% to total	3%	1%	49%	47%	

31 December 2008	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	2	121	1,527	624	2,274
% to total	-	5%	68%	27%	

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

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

Note 13. Other current assets

	31 December 2009	31 December 2008
Promissory notes and deposits: effective interest rate 5.25% – 17.00%	2,254	2,504
Current portion of promissory notes and deposits (Note 10)	8,206	2,223
Derivative financial instruments (Note 25)	-	107
Total financial assets	10,460	4,834
Other short-term investments	6	60
Total other current assets	10,466	4,894

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	31 December 2009	31 December 2008
Promissory notes					
OJSC VTB	Baa1	Moody's	7.00% – 11.00%	6,408	-
OJSC GVC Energetiki	-	-	17.00%	40	40
LLC FC Otkritie	-	-	9.40% – 10.10%	-	2,223
OJSC SO-UES	-	-	8.80%	615	2,160
OJSC Evrofinance					
Mosnarbank	Ba3	Moody's		-	4
Short-term deposits					
OJSC KIT Finance	-	-	13.00%	2,517	
OJSC Bank		Standards &			
Vozrozhdenie	B+	Poor's	8.25% – 9.75%	300	-
OJSC Sberbank of Russia	Baa1	Moody's	5.25% – 8.00%	288	150
Other			9.00% – 14.90%	292	150
Total promissory notes and deposits				10,460	4,727

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Note 14. Equity

	Ordinary shares 31 December 2009	Ordinary shares 31 December 2008
Number of issued ordinary shares	269,695,430,802	245,014,059,191
Par value (in RR)	1.00	1.00

Share issues 2009. On 17 November 2008 the Extraordinary General meeting of Shareholders of the Company adopted a resolution to make two placements of ordinary shares, one for 10,000,000,000 and the other for 16,000,000,000, with a par value of RR 1.00 each by open subscription with a cash consideration.

The share issuance for 10,000,000,000 ordinary shares was registered with the Federal Service for Financial Markets of Russia (hereinafter referred to as "FSFM") on 2 December 2008. Out of the total offering of 10,000,000,000 shares the company placed 9,999,959,476 ordinary shares in favour of the Russian Federation with a par value of RR 1.00 per share. The Report of the share issuance was registered with the FSFM on 19 March 2009.

The share issuance for 16,000,000,000 ordinary shares was registered with the FSFM on 14 May 2009. Out of the total offering of 16,000,000,000 shares the Company placed 14,681,412,135 ordinary shares with a par value of RR 1.00 per share. The Report of the share issuance was registered with the FSFM on 24 September 2009.

Share issues 2008. In 2008 as a result of the reorganisation of RAO UES 18 subsidiaries of the Group, OJSC Bureiskaya HPP, OJSC Kabardino-Balkarskaya Hydrogenerating Company, OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP merged into the Company and became one legal entity. According to the results of the share conversion, 88,149,685,415 additional shares of the Company were placed and the Company's share capital increased to RR 245,014 million. Minority stakes in these companies were exchanged for ordinary shares of the Company.

Treasury shares. Treasury shares as at 31 December 2009 and 31 December 2008 represented 9,882,055,277 ordinary shares in the amount of RR 12,172 million and 5,882,055,227 ordinary shares in the amount of RR 8,172 million respectively (3,137,287,475 ordinary shares in the amount of RR 5,428 million were allocated for the Share Option Programme (Note 6)).

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

In 2009 in the course of the additional share issue the Group purchased treasury shares in the amount of 4,000,000,000 ordinary shares with par value of RR 1.00 per share.

Merger reserve. Based on the application of predecessor values basis of accounting in 2008 the difference of RR 77,449 million as at 31 December 2009 (31 December 2008: RR 77,449 million) between the statutory value of share capital issued and the IFRS carrying value of the contributed assets and minority interest has been recorded as a merger reserve within equity.

Effect of changes in minority. In 2009 the Group subsidiary OJSC Ust'-Srednekanskaya HPP issued 4,995,810,158 additional ordinary shares with a par value of RR 1.00 per share. 3,240,737,749 shares were bought by the State for cash. The remaining 1,755,072,409 shares were bought by the Group for cash and by means of contribution of property, plant and equipment. During 2009 OJSC Ust'-Srednekanskaya HPP purchased 767,959,382 of its own ordinary shares from OJSC Kolymaenergo. As a result of these transactions the Group's share in OJSC Ust'-Srednekanskaya HPP decreased from 51.86 percent to 48.75 percent (Note 4). As contribution made by the State as minority shareholder of OJSC Ust'-Srednekanskaya HPP is higher than the contribution made by the Group, the Group recognized gain in the amount of RR 1,367 million in retained earnings in the statement of changes in equity resulting from the increased net assets OJSC Ust'-Srednekanskaya HPP and of dilution of the Group's share. The Group has also recognised a gain of RR 915 million in retained earnings in the statement of changes in equity to account for recover of minority' share of losses of OJSC Ust'-Srednekanskaya HPP that were previously absorbed by the equity holders of the Group. Respective increase of the minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2009 the Company acquired 4,002,800 ordinary shares of OJSC Geoterm with a par value of RR 10.00 per share for RR 63 million from OJSC Kamchatskenergo. The change in minority interest was reflected in the statement of changes in equity at the date of the acquisition (Note 4).

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In 2009 the Group acquired 101,633,259 ordinary shares of OJSC Verhne-Mutnovskaya GeoES with a par value of RR 1.00 per share for RR 46 million from OJSC Kamchatskenergo. The change in minority interest was reflected in the Consolidated Statement of Changes in Equity at the date of the acquisition (Note 4).

In 2008 OJSC Kolymaenergo issued 1,050,000,000 additional ordinary shares with a par value of RR 1.00 per share each in favour of the State. The change in minority interest was reflected in the Consolidated Statement of Changes in Equity at the date of the additional share issue.

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

In 2008 the Group acquired OJSC Chuvashskaya energy retail company and OJSC RESK for cash consideration and an additional interest in OJSC Kaskad NChPP from OJSC KabbalkEnergo in exchange for setting-off OJSC KabbalkEnergo liabilities to the Company and accounted for these transactions as business combinations under common control (Note 3).

Dividends. In accordance with Russian legislation the Group distributes profits as dividends on the basis financial statement prepared in accordance with RSA. No dividends were declared and paid by the Company relating to the years 2008 and 2007. Dividends in the amount of RR 213 million relating to the year ended 31 December 2008 (for the year ended 31 December 2007: RR 1 million) were declared by the subsidiaries in favour of minority holders.

Note 15. Income tax

Income tax charge is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	10,133	8,348
Deferred income tax benefit	(2,394)	(7,899)
Total income tax charge	7,739	449

The income tax rate applicable to the majority of the Group's for the year ended 31 December 2009 income is 20 percent (for the year ended 31 December 2008: 24 percent).

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24 percent to 20 percent with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the reduced 20 percent tax rate to deferred income tax balances at 31 December 2008.

A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (Loss) before income tax	38,923	(19,032)
Theoretical tax (charge) / benefit at statutory rate (2009: 20%; 2008: 24%)	(7,784)	4,568
Tax effect of items which are not deductible or assessable for taxation purposes	(653)	(1,352)
Effect of reduction in tax rate from 24% to 20% enacted in 2008 with effect from 1 January 2009	-	(694)
Unrecognised deferred income tax asset movements related to impairment of investments	291	(1,735)
Other unrecognised deferred income tax asset movements	407	(1,236)
Total income tax charge	(7,739)	(449)

Total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group comprises RR 20,666 million and RR 23,920 million as at 31 December 2009 and 31 December 2008 respectively. These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group subsidiaries and impairment of available-for-sale financial assets incurred in the year ended 31 December 2008.

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Deferred income tax. Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2008: 20 percent).

	31 December 2009	Charged / (credited) to the income statement	Charged directly to other comprehensive income	31 December 2008
Deferred income tax liabilities	42,851	(1,015)	291	43,575
Property, plant and equipment	41,148	(1,902)	-	43,050
Loans and borrowings	451	(7)	-	458
Other	1,252	894	291	67
Deferred income tax assets	(10,135)	(1,379)	-	(8,756)
Property, plant and equipment	(6,658)	(199)	-	(6,459)
Accounts receivable	(1,364)	(1,134)	-	(230)
Other	(2,113)	(46)	-	(2,067)
Deferred income tax liabilities, net	32,716	(2,394)	291	34,819

In 2009 a deferred income tax expense of RR 291 million was recorded directly in other comprehensive income in respect of the gains arising on available-for-sale financial assets (Note 9).

	31 December 2008	Charged / (credited) to the income statement	Charged directly to other comprehensive income	31 December 2007
Deferred income tax liabilities	43,575	(3,405)	10,156	36,824
Property, plant and equipment	43,050	(3,320)	10,156	36,214
Loans and borrowings	458	(45)	-	502
Other	67	(41)	-	108
Deferred income tax assets	(8,756)	(4,494)	-	(4,262)
Property, plant and equipment	(6,459)	(4,337)	-	(2,122)
Accounts receivable	(230)	520	-	(750)
Other	(2,067)	(677)	-	(1,390)
Deferred income tax liabilities, net	34,819	(7,899)	10,156	32,562

In 2008 a deferred income tax expense of RR 10,156 million was recorded directly in other comprehensive income in respect of the revaluation of the Group's property, plant and equipment (Note 7).

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

The Group did not have significant unrecognised deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures as at 31 December 2009 and 31 December 2008.

Note 16. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2009 and 31 December 2008.

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

	31 December 2009	31 December 2008
Present value of defined benefit obligations	1,874	1,984
Present value of unfunded obligations	1,874	1,984
Unrecognised actuarial gains	214	228
Unrecognised past service cost	(528)	(726)
Net liability	1,560	1,486

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Amounts recognised in the Group's Consolidated Income Statement:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	71	96
Interest cost	165	117
Net actuarial loss	1	1
Past service cost	91	390
Termination benefits	28	-
Survivors lump-sum payments	40	-
Curtailment gain	-	(22)
Net expense recognised in income statement	396	582

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

	31 December 2009	31 December 2008
Projected Benefit Obligation at the beginning of the year	1,984	1,731
Service cost	71	96
Interest cost	165	117
Actuarial loss / (gain)	15	(205)
Past service (income) / cost	(107)	383
Benefits paid	(254)	(104)
Curtailment gain	-	(34)
Present value of pension benefit obligations at the end of the year	1,874	1,984

Experience adjustment on benefit obligations is as follows:

	31 December 2009	31 December 2008
Defined benefit obligations	1,874	1,984
Plan assets	-	-
Deficit	1,874	1,984
Experience adjustments on plan liabilities	15	40
Experience adjustments on plan assets	-	-

The Group expects to contribute RR 143 million to the defined benefit plans during the year beginning 1 January 2010.

Principal actuarial assumptions are as follows:

	31 December 2009	31 December 2008
Nominal discount rate	9.0%	9.0%
Wage growth rate	8.0%	8.0%
Inflation rate	6.5%	7.0%

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Note 17. Current and non-current debt
Non-current debt

	Currency	Effective interest rate	Due date	31 December 2009	31 December 2008
Bonds issue (OJSC HydroWGC Management Company)	RR	8.10%	2011	5,000	5,000
EBRD (tranche 1)	RR	MOSPRIME+3.65%	2020	2,045	2,024
EBRD (tranche 2)	RR	MOSPRIME+2.75%	2014	850	850
EBRD (tranche 3)	RR	MOSPRIME+3.05%	2016	3,150	3,150
Morgan Stanley Bank International Ltd	RR	8.75%	2013	3,000	3,000
CF Structured Products B.V.	USD	10.5%	2013	1,815	1,763
Morgan Stanley Bank International Ltd	RR	MOSPRIME+1.5%	2014	1,500	1,500
Municipal authority of Kamchatka region	USD	8.57%	2035	1,282	1,198
Other long-term debt	RR	-	-	268	323
Long-term derivative financial instruments – interest rate swaps	RR	-	2010	-	240
Finance lease liabilities	RR	11.10% – 20.00%	-	2,271	3,083
Total				21,180	22,131
Less current portion of finance lease liabilities				(955)	(2,064)
Less current portion of non-current debt				(858)	(52)
Total non-current debt				19,367	20,015

European Bank for Reconstruction and Development (hereinafter referred to as “EBRD”). In September 2006 the Group received a loan, in three tranches, of RR 6,300 million from EBRD. Tranche 1 is stated net of transaction costs incurred in the amount of RR 255 million as at 31 December 2009 (31 December 2008: RR 276 million). The funds are used to finance a programme of upgrading and reequipment of HPPs of Volzhsko-Kamskiy Kaskad. The loan is co-arranged by Standard Bank PLC, CJSC Bank Austria Creditanstalt AG and CJSC ING Bank (Eurasia). The lead arrangers are Calyon, Fortis SA/NV and CJSC Raiffeisenbank and the arrangers are CJSC Citibank, Credit Suisse and CJSC Banque Societe Generale Vostok. Interest is payable on a quarterly basis. The loan is scheduled for repayment through equal quarterly instalments beginning with the first interest payment date in 2010.

Bonds issue. In July 2006 OJSC HydroWGC Management Company issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000 million. The bonds were sold at a par value of RR 1,000. The interest is payable every six months. The bonds are repayable in July 2011. The bonds issue was sponsored by OJSC KIT Finance Investment Bank. The bond issue proceeds are used to finance the completion of Boguchanskaya HPP and the needs of the Group’s subsidiaries.

Morgan Stanley Bank International Ltd (hereinafter referred to as “Morgan Stanley”). In April 2007 the Group obtained a loan of RR 1,500 million from Morgan Stanley. The funds were intended to be used for financing capital expenditure projects in accordance with the Group’s investment programme. The loan is scheduled for repayment in April 2014. The interest is payable every six months.

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

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

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

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Notes to the Consolidated Financial Statements for the year ended 31 December 2009

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Current debt

	Currency	Effective interest rate	31 December 2009	31 December 2008
Current portion of non-current debt	RR	-	858	52
Finance lease liabilities	RR	11.10% – 20.00%	955	2,064
Interest payable	RR	-	453	574
Ministry of Railways of Russia	RR	9.80%	-	471
Other current debt	RR	-	25	5
Short-term derivative financial instruments – interest rate swaps	RR	-	285	211
Total current debt and current portion of non-current debt			2,576	3,377

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt. The Group was in compliance with covenants as at 31 December 2009 and 31 December 2008. The Group's management monitors its compliance with the following significant covenants on a semi-annual basis:

Debt / EBITDA. The debt to EBITDA ratios were 0.42 and 0.69 as at 31 December 2009 and as at 31 December 2008, respectively.

EBITDA / Interest expense. The EBITDA to interest expense ratios were 19.01 and 14.30 as for the years ended 31 December 2009 and 31 December 2008, respectively.

Long-term debt / EBITDA. The long-term debt to EBITDA ratios were 0.37 and 0.59 as at 31 December 2009 and as at 31 December 2008.

Current assets / Current liabilities (current ratio). The current ratios were 3.24 and 2.24 as at 31 December 2009 and as at 31 December 2008.

Long-term debt / Equity. The long-term debt to equity ratios were 0.05 and 0.06 as at 31 December 2009 and as at 31 December 2008.

EBITDA is defined as earnings before the deduction of interest expense and financing items, income taxes, depreciation, non-cash impairment and disposal charges and insurance compensations and amounted to RR 52,182 million for the year ended 31 December 2009 and RR 33,735 million for the year ended 31 December 2008. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position.

Debt maturity

	31 December 2009	31 December 2008
Between one and two years	5,949	1,092
Between two years and three years	1,058	5,963
Between three years and four years	5,677	1,082
Between four years and five years	2,374	5,617
After five years	2,993	5,242
Total	18,051	18,996

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

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	1,160	2,209	43	3,412
Less future finance charges	(205)	(911)	(25)	(1,141)
Present value of minimum lease payments at 31 December 2009	955	1,298	18	2,271
Minimum lease payments at 31 December 2008	2,257	1,165	78	3,500
Less future finance charges	(193)	(183)	(41)	(417)
Present value of minimum lease payments at 31 December 2008	2,064	982	37	3,083

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Note 18. Other non-current liabilities

	31 December 2009	31 December 2008
Pension benefit obligations (Note 16)	1,560	1,486
Other non-current liabilities	1,195	1,250
Total other non-current liabilities	2,755	2,736

Note 19. Accounts payable and accruals

	31 December 2009	31 December 2008
Trade payables	8,602	4,671
Derivative financial instruments	1,164	50
Dividends payable	19	21
Total financial liabilities	9,785	4,742
Accounts payable in respect of share issue	4,330	6,000
Advances received	1,253	1,432
Settlements with personnel	885	863
Other accounts payable	2,849	3,203
Total accounts payable and accruals	19,102	16,240

As at 31 December 2008 the Group had an obligation of RR 6,000 million to the Russian Federation represented by the Federal Agency for State Property Management in respect of an additional issue of shares approved by the Extraordinary General meeting of the Company's Shareholders on 18 November 2008 for 10,000,000,000 shares. During the year ended 31 December 2009 additional cash payments were received from the Russian Federation in the amount of RR 4,000 million. As a result 9,999,959,476 ordinary shares were placed and registered by the FSFM on 19 March 2009 (Note 14).

As at 31 December 2009 the Company had an obligation of RR 4,330 million to the Russian Federation represented by the Federal Agency for State Property Management in respect of an additional issue of shares approved by the Extraordinary General meeting of the Company's Shareholders on 10 June 2009 for 19,000,000,000 ordinary shares. Share issuance was not completed as at 31 December 2009.

As at 31 December 2008 a major part of other accounts payable balance related to special-purpose financing from the Russian Federation represented by the Federal Energy Agency in the amount of RR 2,450 million made in exchange for an interest in the share capital of OJSC Ust'-Srednekanskaya HPP. As a result 3,240,737,749 ordinary shares with a par value of RR 1.00 were issued in favour of the Russian Federation. Share issuance was registered by the FSFM on 10 June 2009 (Note 14).

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

All accounts payable and accruals are denominated in RR.

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 December 2009 comprises RR 31,728 million (31 December 2008: RR 28,134 million) and includes, in addition to trade payables, derivative financial instruments, dividends payable, non-current and current debt (Note 17).

Note 20. Other taxes payable

Other taxes payable represent the following:

	31 December 2009	31 December 2008
Value added tax	1,505	3,169
Property tax	1,305	1,503
Unified social tax	331	235
Other taxes	214	303
Total other taxes payable	3,355	5,210

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Note 21. Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity	60,616	65,730
Sales of capacity	50,776	36,944
Other revenue	4,211	4,996
Total revenue	115,603	107,670

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

A significant part of the Group's sales and purchases of electricity and capacity is conducted through commission and purchase-and-sale agreements with CJSC "Center of Financial Settlements" (hereinafter referred to as "CFS") on the wholesale electricity and capacity market (hereinafter referred to as "WEM").

A significant part of electricity and capacity is sold through WEM under regulated contracts with predetermined volumes and tariffs approved by FST or unregulated bilateral contracts (sale / purchase of electricity and capacity at non-regulated prices (Note 1)). Electricity and capacity are sold directly to trading companies or major industrial consumers.

At the same time some of the transactions through WEM are conducted through commission agreements with CFS (one-day-ahead market or balancing electricity market (Note 1)). CFS is the entity responsible for ensuring secure and timely financial settlements under all contract relationship between the WEM participants. Its principal function is to provide complex services on calculation of receivables and liabilities of the WEM participants and on the fulfillment of financial settlements between them.

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

The Group had the following significant balances with CFS:

	Note	31 December 2009	31 December 2008
Trade and other receivables	12	1,232	1,181
Accounts payable	19	950	486

The Group had the following significant transactions with CFS:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity		23,026	20,163
Purchased electricity and capacity	22	13,276	16,172

Note 22. Operating expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Purchased electricity and capacity	26,725	34,661
Depreciation of property, plant and equipment	11,811	9,333
Electricity distribution expenses	10,673	12,415
Third parties services, including:	8,858	9,650
Repairs and maintenance	2,108	2,089
Services of SO-CDU, NP Council Market, CFS	2,058	2,417
Services of subcontracting companies	1,041	1,369
Consulting, legal and information expenses	675	698
Insurance cost	586	601
Rent	530	526
Security expenses	524	552
Transportation expenses	266	330
Other third parties services	1,070	1,068
Employee benefit expenses (including payroll taxes, share option plan expenses and pension benefit expenses)	8,261	8,132
Loss on disposal of property, plant and equipment, net (Note 1)	5,856	303
Taxes other than on income	5,434	5,145
Other materials	1,159	1,367
Write-off and impairment of accounts receivable	1,008	1,088
Water usage expenses	888	855
Social charges	340	328
Insurance compensation (Note 12)	(6,046)	-
Other expenses	1,083	1,382
Total operating expenses	76,050	84,659

The loss on disposal of property, plant and equipment primarily includes the losses related to the write-off due to accident at Sayano-Shushenskaya HPP amounting to RR 5,604 million (Notes 1, 7).

Insurance indemnity from OJSC IC ROSNO

Property, plant and equipment damaged in the accident at Sayano-Shushenskaya HPP (Note 1) were insured under the insurance contract with OJSC IC ROSNO (hereinafter referred to as "Insurer") dated 25 December 2008 (hereinafter referred to as the "Insurance Contract"). Under the Insurance Contract, in case of an insurance event the Insurer shall compensate the losses incurred by the Company within the indemnity limit fixed at USD 200,000,000. Under the Insurance Contract, the Company's losses are compensated in the amount of expenses required to restore the insured property to the condition it was in immediately prior to the insurance event, and any additional expenses of the Company in connection with the insurance event.

An insurance asset has been recognised, to the extent its recoverability was considered by management as virtually certain, as at the end of reporting period in the amount of USD 199,950,000 (RR 6,046 million). The amount of insurance indemnity is recorded within operating expenses (Notes 7, 12).

On 9 February 2010 the Company and the Insurer signed an Agreement on the procedure for fulfilment of obligations under the Insurance Contract. Under this Agreement:

- the amount of the damage as a result of the accident at Sayano-Shushenskaya HPP on 17 August 2009 as determined in the Expert Report exceeds the indemnity limit of USD 200,000,000;
- the maximum amount of the insurance indemnity to be paid (with the unconditional franchise taken into account) as per the Insurance Contract is the RR equivalent of USD 199,950,000.

The Insurer made the first payment of RR 753 million under the insurance indemnity to the Company on 19 February 2010, and the second payment of RR 1,712 million was made on 12 March 2010.

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Note 23. Finance costs

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4,934	1,911
Interest expense	(2,445)	(1,825)
Interest expense on discounting*	(1,014)	(218)
Loss on derivative financial instruments	(1,266)	(394)
Finance lease expense	(300)	(534)
Other income / (expense)	77	(435)
Finance costs	(14)	(1,495)

* Interest expense on discounting includes the effect of elimination of profit in BoGES Group resulted from renegotiation of the terms of the promissory notes in the amount RR 3,277 million (Note 8).

Note 24. Earnings per share

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued (thousand of shares)	249,523,146	215,648,245
Profit/(loss) attributable to the shareholders of the Company	30,667	(19,956)
Weighted average earnings per share – basic and diluted* (in RR)	0.1229	(0.0925)

* Share option programme of the Group (Note 6) has no dilutive effect for the periods presented.

Note 25. Derivative financial instruments

To reduce the Group's foreign exchange risk and interest rate risk exposure, in 2008 the Group entered into derivative financial instrument transactions with two foreign banks having an investment grade rating within the range Aa1-Aa3 as assessed by the Standard & Poor's rating agency on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

	31 December 2009		31 December 2008	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards: fair values of:				
- USD forwards	-	1,150	-	34
- EURO forwards	-	-	52	7
- CHF forwards	-	14	-	9
Interest rate swaps	-	285	55	451
Total	-	1,449	107	501
Less non-current portion of interest rate swaps	-	-	-	240
Current portion	-	1,449	107	261

The full fair value of interest rate swaps is classified as other current assets (Note 13), current and non-current debt (Note 17). The full fair value of foreign exchange forwards is classified as other current assets (Note 13) and accounts payable and accruals (Note 19).

The fair value hierarchy into which the fair values of derivative financial instruments are categorised is disclosed in Note 30.

Note 26. Commitments

Social commitments. The Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and

maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which they operate.

Capital commitments. In May 2006 the Company and RUSAL Group entered into an agreement for mutual financing, completion and subsequent operation of the Boguchanskaya HPP, with an installed capacity of 3,000 MW, and Boguchansky aluminium plant, with a capacity of 597,000 tonnes of aluminium per annum. The Company and Rusal Group agreed to finance the construction on a parity basis.

Boguchanskaya HPP is intended to be launched in stages, with an expected commissioning of 3 hydroelectric generators with installed capacity of 1,000 MW in the 4th quarter 2010 and 1,000 MW per annum in 2011 – 2012. Boguchanskaya HPP is intended to supply electricity to both Boguchansky aluminium plant and other consumers in Siberia, and it is expected to help cover any winter peak power deficit in Siberia.

Due to the dramatic fall in aluminium prices resulting from the global economic crisis, the parties suspended construction of the aluminium plant, with the date of commissioning of the first phase postponed until December 2011. However, it was decided to proceed with the construction of the Boguchanskaya HPP and commission its first phase in the 4th quarter 2010. The Company believes that, even if the aluminium plant is not completed, there will be demand in that region for Boguchanskaya HPP's output of electricity.

The total investment to be contributed into the project by the Company and RUSAL Group amounts to RR 118,301 million from 2010 to 2014 in accordance with the Company's investment programme. Both the Company and RUSAL Group have committed to finance the construction equally. The Group financed RR 5,269 million for the year ended 31 December 2009.

Other future capital expenditures in accordance with contractual obligations amounted to RR 44,084 million as at 31 December 2009 (31 December 2008: RR 31,598 million). The major part of future capital expenditures under contractual obligations as at 31 December 2009 are related to the following hydro power stations: Zagorskaya HAEP-2 in the amount of RR 16,446 million, mainly due to the construction of the station, Sayano-Shushenskaya HPP in the amount of RR 13,711 million, mainly due to the reconstruction programme and Saratovskaya HPP in the amount of RR 2,418 million, mainly due to the equipment delivery.

Note 27. Contingencies

Political environment. The operations and earnings of the 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 the Russian Federation.

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

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

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

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

Management believes that as at 31 December 2009 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in the Consolidated Financial Statements.

Environmental matters. The Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually

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being reconsidered. The 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.

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

Name of counterparty	Debtor	Nature of relationship	31 December 2009	31 December 2008
Barclays Bank PLC	CJSC Boguchansky Aluminium Plant	Joint venture Lessor of the Group	7,864	7,639
OJSC Bank of Moscow	LLC IR Leasing	Lessor of the Group	-	1,423
OJSC Bank of Moscow	OJSC HMLK Otkritie	Group	-	491
Areva T&D S.A.	CJSC Boguchansky Aluminium Plant	Joint venture	1,054	1,374
Solios Environnement S. A.	CJSC Boguchansky Aluminium Plant	Joint venture	712	774
CJSC Commerzbank (Eurasia)	CJSC Boguchansky Aluminium Plant	Joint venture	185	167
Brochot S. A.	CJSC Boguchansky Aluminium Plant	Joint venture	11	41
Societe des Technologies de l'Aluminium du Saguenay Inc.	CJSC Boguchansky Aluminium Plant	Joint venture	20	19
Total			9,846	11,928

In March 2007 the Company issued a guarantee for a loan of USD 520 million raised by CJSC Boguchansky Aluminium Plant to finance BEMA project. The loan period is 3 years and the average interest rate is LIBOR+0.825 percent. The managers and underwriters of the loan are ABN Amro, Barclays Bank PLC, Calyon and Sberbank of Russia. The borrowings are used for the construction of Boguchansky aluminium plant and completion of Boguchanskaya HPP. The Company's guarantee provides for 50 percent of the borrower's liabilities under the loan agreement; the remaining 50 percent of the liabilities are secured by the guarantee and surety provided by the RUSAL Group entities. The fair value of the guarantees was assessed as at 31 December 2009 and a liability in the amount of RR 24 million was recognised (31 December 2008: RR 103 million). The guarantee was terminated due to the repayment of the loan and the accrued interest by CJSC Boguchansky Aluminium Plant on 15 March 2010 (Note 32).

The Group issued guarantees for two loans raised by OJSC HMLK Otkritie and LLC IR Leasing to finance equipment purchases for Bureiskaya HPP, the Company's branch. The interest rate on the loans is 11 percent. The fair value of the guarantees was assessed as at 31 December 2008 and a liability in the amount of RR 58 million was recognised. The loans were repaid in 2009.

Remaining guarantees were issued to suppliers for future equipment deliveries to jointly controlled entity.

Note 28. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

Although collection of receivables could be influenced by economic factors, management believes that there

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is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

For Group customers there is no independent rating and therefore the Group considers the credit quality of the customer at the contract execution stage. The Group considers the customer's financial position and its credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

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

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

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

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position (Note 31).

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

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

	31 December 2009	31 December 2008
Financial guarantees – amount of guaranteed loans	9,966	12,737
Total off-balance sheet exposure	9,966	12,737

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

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

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

Also the Company acts as a surety on currency obligations of CJSC Boguchansky Aluminium Plant at the rate of 50 percent (the remaining 50 percent are guaranteed by the RUSAL Group entities) and plans to provide funds to make necessary payments by means of financing through the company HydroOGK Aluminium Company Ltd. As foreign currency revenues on the BEMA project are expected not earlier than 2010, the Company's management took a decision to reduce foreign currency risk on the BEMA project.

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The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2009				31 December 2008			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
US Dollars	320	(3,097)	(1,150)	(3,927)	1	(2,961)	(34)	(2,994)
Euros	1,258	(11)	-	1,247	13	(17)	45	41
Other	-	-	(14)	(14)	2	-	(9)	(7)
Total	1,578	(3,108)	(1,164)	(2,694)	16	(2,978)	2	(2,960)

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 25. The net total represents the fair value of the currency derivatives.

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

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

Interest rate risk. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates. Borrowings issued at variable rates (Note 17) expose the Group to cash flow interest rate risk.

The Company obtains most debt financing in the national currency with floating rate, which are established on the basis of the MOSPRIME rate, LIBOR.

As at 31 December 2009, if interest rates at that date had been 0.5 percent higher (31 December 2008: 0.5 percent higher), with all other variables held constant, profit would have been RR 56 million (31 December 2008: RR 56 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the respective end of the reporting period are disclosed in Note 17.

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

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

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

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

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

The table below shows liabilities as at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because the Consolidated Statement of Financial Position amount is based on discounted cash flows.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 17)	2,621	7,340	13,167	6,933
Trade payables (Note 19)	8,602	-	-	-
Financial guarantees (Note 27)	7,984	31	1,951	-
Dividends payable	19	-	-	-
Finance lease liabilities (Note 17)	1,160	914	1,295	43
Gross settled swaps and forwards (Note 25)				
-inflows	7,929	-	-	-
-outflows	(9,080)	-	-	-
Net settled derivatives (Note 25)	(291)	-	-	-
Total future net payments, including future principal and interest payments	18,944	8,285	16,413	6,976

The maturity analysis of financial liabilities as at 31 December 2008 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Liabilities				
Current and non-current debt (Note 17)	1,813	2,854	17,419	9,875
Trade payables (Note 19)	4,671	-	-	-
Financial guarantees (Note 27)	1,578	8,784	2,375	-
Dividends payable	21	-	-	-
Finance lease liabilities (Note 17)	2,257	1,165	-	78
Gross settled swaps and forwards (Note 25)				
- inflows	2,027	-	-	-
- outflows	(2,022)	-	-	-
Net settled derivatives (Note 25)	(424)	-	-	-
Total future net payments, including future principal and interest payments	9,921	12,803	19,794	9,953

Note 29. Management of capital

The Group's capital risk management has as key objectives compliance with the Russian legislation requirements and policy of capital cost reduction.

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

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

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2009 was RR 403,283 million (31 December 2008: RR 343,613 million).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total

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capital. Debt is calculated as sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. Gearing ratios were 0.05 as at 31 December 2009 and 0.07 as at 31 December 2008 respectively.

The Group's policy of capital risk management is based on the following financial ratios: debt to EBITDA ratio, interest payments coverage by EBITDA (Note 17) and debt coverage by revenue.

The ratio of debt to revenue was 0.19 as at 31 December 2009 and 0.22 as at 31 December 2008.

Note 30. Fair value of financial instruments

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

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

Financial instruments carried at fair value. Available-for-sale financial assets and financial derivatives are carried in the statement of financial position at their fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised is as follows:

	31 December 2009			31 December 2008		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
Financial assets						
Investment securities available for sale						
Corporate shares	6,746	-	99	1,537	375	99
Other financial assets						
Foreign exchange forward contracts	-	-	-	-	52	-
Other financial derivatives	-	-	-	-	55	-
Total financial assets carried at fair value	6,746	-	99	1,537	482	99
Financial liabilities						
Other financial liabilities						
Foreign exchange forward contracts	-	(1,164)	-	-	(50)	-
Other derivative financial instruments	-	(285)	-	-	(451)	-
Total financial liabilities carried at fair value	-	(1,449)	-	-	(501)	-

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new

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instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

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

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

Refer to Note 17 for the estimated fair values of borrowings. Carrying amounts of trade and other payables approximate fair values.

Note 31. Presentation of financial instruments by measurement category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss (hereinafter referred to as "FVTPL").

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

	Loans and receivables	Available-for-sale financial assets	Assets at fair value through the profit and loss	Total
Assets				
Other non-current assets (Note 10)	16,741	-	-	16,741
Promissory notes and deposits	16,522	-	-	16,522
Long-term loans receivable	219	-	-	219
Available-for sale financial assets (Note 9)	-	6,845	-	6,845
Trade and other receivables (Note 12)	7,478	-	-	7,478
Trade receivables	7,095	-	-	7,095
Promissory notes receivable	383	-	-	383
Other current assets (Note 13)	10,460	-	-	10,460
Promissory notes and deposits	10,460	-	-	10,460
Derivative financial instruments	-	-	-	-
Cash and cash equivalents (Note 11)	48,152	-	-	48,152
Total financial assets	82,831	6,845	-	89,676
Non-financial assets	-	-	-	393,579
Total assets	82,831	6,845	-	483,255

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as they are held for trading.

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The following table provides a reconciliation of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2008:

	Loans and receivables	Available-for- sale financial assets	Assets at fair value through the profit and loss	Total
Assets				
Other non-current assets (Note 10)	12,156	-	-	12,156
Promissory notes and deposits	11,943	-	-	11,943
Long-term loans receivable	213	-	-	213
Available-for sale financial assets (Note 9)	-	2,011	-	2,011
Trade and other receivables (Note 12)	15,011	-	-	15,011
Trade receivables	6,363	-	-	6,363
Promissory notes receivable	8,648	-	-	8,648
Other current assets (Note 13)	4,727	-	107	4,834
Promissory notes and deposits	4,727	-	-	4,727
Derivative financial instruments	-	-	107	107
Cash and cash equivalents (Note 11)	24,838	-	-	24,838
Total financial assets	56,732	2,011	107	58,850
Non-financial assets	-	-	-	367,521
Total assets	56,732	2,011	107	426,371

Note 32. Subsequent events

Start of hydraulic units at Sayano-Shushenskaya HPP. Following the accident at the plant (Note 1) on 24 February 2010 hydraulic unit No. 6 (GA-6) and on 22 March 2010 hydraulic unit No. 5 (GA-5) of Sayano-Shushenskaya HPP were restarted. Commercial operation of these units has provided the basic capacity of 1,280 MW, minimised the risks of flooding and guaranteed water supply to the population, industrial and social facilities, located downstream of the Sayano-Shushenskaya HPP.

Security issued for liabilities and charges. On 15 March 2010 the Company's guarantee issued to the benefit of the syndicate of banks for 50 percent obligations of CJSC Boguchansky Aluminium Plant under the loan agreement dated 15 March 2007 (Note 27) was terminated due to the repayment of the loan and the accrued interest by CJSC Boguchansky Aluminium Plant.

Approval of the Company's investment programme for 2010. On 9 March 2010 the Company's Board of Directors approved the Company's investment programme for 2010. Total investment is planned in the amount of RR 97.1 billion.

The planned investment programme of modernisation and repairs in 2010 will amount to RR 12.2 billion. This programme will significantly increase the level of technological security, reliability and efficiency of facilities operation due to the renovation of both principal and auxiliary equipment, as well as through the implementing the advanced monitoring and control systems for the Company's hydropower plants.

Financing of the Company's projects under construction is planned in the amount of RR 64.6 billion, out of which RR 37.4 billion will be used to finance the BEMA project (Note 27) and RR 15.4 billion for construction of Zagorskaya HAEPP-2.

The planned funds for the rehabilitation programme of the Sayano-Shushenskaya HPP will amount to RR 16.1 billion. In addition, the Company's investment programme includes funding for the construction of the shore spillway of Sayano-Shushenskaya HPP in the amount of RR 3.5 billion. The first stage of the shore spillway is planned to be completed by June 2010.

Changes in the Employee's Share Option Programme. On 11 February 2010 the Company's Board of Directors approved the amendments to the Share Option Programme (Note 6), which extend the period during which participants can exercise their options up to 2 years after 2 September 2010.

Approval of the acquisition of Energy retail companies. On 2 April 2010 the Company's Board of Directors approved an intention of the Group to acquire a 50.90 percent share in OJSC Mosenergosbyt, a 49.00 percent share in OJSC Peterburgskaya Energy Retail Company, a 49.01 percent share in OJSC Tambovskaya Energy Retail Company, a 48.36 percent share in OJSC Saratovenergo, a 100 percent share in OJSC Altayenergosbyt, a 100 percent share in OJSC United Energy Company from JSC RAO Energy System of East. The price of the above shares will be determined by independent appraisal.