

OJSC Enel OGK-5

Consolidated Financial Statements
for the year ended 31 December 2011

Contents

Independent Auditors' Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Notes to Consolidated Financial Statements	10

Independent auditors' report

To the Shareholders and the Board of Directors
of OJSC Enel OGC-5

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Enel OGC-5 and its subsidiaries (hereinafter collectively referred to as the "Group") which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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



ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

6 March 2012

OJSC Enel OGK-5
Consolidated Statement of Financial Position as at 31 December 2011
Thousands of Russian Roubles, unless otherwise stated

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	101,003,887	88,139,083
Intangible assets	6	818,550	698,296
Prepaid expense		-	284,479
Value added tax recoverable		-	10,250
Available-for-sale financial assets		52,960	86,590
Non-current derivative assets	21	108,460	-
Other non-current assets	7	720,866	826,243
Total non-current assets		102,704,723	90,044,941
Current assets			
Inventories	9	3,324,734	2,362,338
Trade and other receivables	8	7,637,664	7,551,523
Income tax receivable		572,180	86,385
Cash and cash equivalents	10	4,736,990	536,641
Total current assets		16,271,568	10,536,887
TOTAL ASSETS		118,976,291	100,581,828
EQUITY AND LIABILITIES			
Equity			
Share capital	11	35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(411,060)	(411,060)
Fair value reserve		21,360	54,215
Effective portion of changes in fair value of cash flow hedges	11	380,690	127,031
Retained earnings		27,956,949	22,981,996
Total equity attributable to equity holders of OJSC Enel OGK-5		70,138,584	64,942,827
Non-controlling interest		16,783	28,153
TOTAL EQUITY		70,155,367	64,970,980
Non-current liabilities			
Loans and borrowings	13	30,890,888	15,245,196
Deferred tax liabilities	12	7,393,588	6,385,023
Employee benefits	14	516,390	349,781
Provisions	17	514,430	897,389
Non-current derivative liabilities	21	169,790	245,794
Other non-current liabilities		-	435
Total non-current liabilities		39,485,086	23,123,618
Current liabilities			
Loans and borrowings	13	1,288,712	5,493,996
Current derivative liabilities	21	111,660	308,186
Trade and other payables	15	5,675,946	4,311,867
Other taxes payable	16	1,424,260	1,069,178
Provisions	17	835,260	1,304,003
Total current liabilities		9,335,838	12,487,230
Total liabilities		48,820,924	35,610,848
TOTAL EQUITY AND LIABILITIES		118,976,291	100,581,828

General Director

Chief Accountant

6 March 2011

E.Viale

E.A. Dubtsova

The notes on pages 10 to 39 are an integral part of these consolidated financial statements.

OJSC Enel OGK-5
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
Thousands of Russian Roubles, unless otherwise stated

	Notes	For the year ended 31 December 2011	For the year ended 31 December 2010
Revenue	18	60,102,491	52,560,582
Operating expenses	19	(51,936,309)	(47,144,945)
Other operating income		557,881	232,772
Operating profit		8,724,063	5,648,409
Finance income	20	257,440	975,100
Finance costs	20	(2,709,760)	(2,023,843)
Profit before income tax		6,271,743	4,599,666
Income tax expense	12	(1,308,160)	(904,915)
Profit for the year		4,963,583	3,694,751
Other comprehensive income			
Net change in fair value of available-for-sale financial assets (net of income tax)		(32,855)	21,594
Effective portion of changes in fair value of cash flow hedges (net of income tax)	21	253,659	127,031
Other comprehensive income for the period, net of income tax		220,804	148,625
Total comprehensive income for the year		5,184,387	3,843,376
Profit attributable to:			
Owners of OJSC Enel OGK-5		4,974,953	3,715,901
Non-controlling interest		(11,370)	(21,150)
Total comprehensive income attributable to:		5,195,757	3,864,526
Owners of OJSC Enel OGK-5		(11,370)	(21,150)
Non-controlling interest			
Earnings per ordinary share for profit attributable to the equity holders of OJSC Enel OGK-5 – basic and diluted (in Russian Roubles per share)			
	11	0.1413	0.1055

General Director

Chief Accountant

6 March 2011

E. Viale

E.A. Dubtcova

OJSC Enel OGC-5
Consolidated Statement of Cash Flows for the year ended 31 December 2011
Thousands of Russian Roubles, unless otherwise stated

	Note	For the year ended 31 December 2011	For the year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		6,271,743	4,599,666
<i>Adjustments for:</i>			
Depreciation and amortisation	5, 6, 19	3,327,930	2,801,099
Loss on disposal of property, plant and equipment	19	48,441	639,646
Stock option plan expense		-	155
Impairment loss in respect of property, plant and equipment	5	1,098,200	654,972
Finance income	20	(257,440)	(975,100)
Finance costs	20	2,709,760	2,023,843
Loss on sale of trade receivables	19	-	9,258
Adjustments for other non-cash transactions		253,780	(111,935)
		13,454,414	9,641,604
(Increase)/decrease in trade and other receivables		(533,203)	422,893
Increase in inventories		(1,244,103)	(292,896)
Increase in trade and other payables		2,106,919	820,338
Change in allowance for impairment of trade and other receivables	8	400,039	176,794
Change in allowance for inventory obsolescence	9	-	(4,028)
Change in other provisions	17	(1,132,007)	1,357,813
Increase in taxes payable, other than income tax		355,082	285,526
Net cash inflow from operating activities before income tax paid		13,407,141	12,408,044
Income tax paid		(840,595)	(858,850)
Net cash from operating activities		12,566,546	11,549,194
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and other non-current assets		(17,321,065)	(14,122,726)
Interest received		54,234	60,282
Net cash used in investing activities		(17,266,831)	(14,062,444)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of current loans and borrowings		7,452,000	-
Proceeds from the issue of non-current loans and borrowings		16,946,490	7,066,332
Repayment of loans and borrowings		(13,538,277)	(4,000,000)
Payment of transaction costs related to loans and borrowings		(7,450)	(31,338)
Interest paid		(1,952,129)	(1,082,569)
Proceeds from disposal of investment		-	76,713
Proceeds from sale of treasury shares		-	9,334
Net cash from financing activities		8,900,634	2,038,472
Net increase/(decrease) in cash and cash equivalents		4,200,349	(474,778)
Cash and cash equivalents at 1 January		536,641	1,011,419
Cash and cash equivalents at 31 December	10	4,736,990	536,641

General Director

Chief Accountant

6 March 2011

E. Viale

E.A. Dubtцова

OJSC Enel O GK-5
Consolidated Statement of Changes in Equity for the year ended 31 December 2011
Thousands of Russian Roubles, unless otherwise stated

		Attributable to equity holders of OJSC Enel O GK-5							
Note	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
	35,371,898	6,818,747	(420,394)	32,621	-	19,265,940	61,068,812	49,303	61,118,115
Profit for the year	-	-	-	-	-	3,715,901	3,715,901	(21,150)	3,694,751
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of tax	21	-	-	-	127,031	-	127,031	-	127,031
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	21,594	-	-	21,594	-	21,594
Total other comprehensive income	-	-	-	21,594	127,031	-	148,625	-	148,625
Total comprehensive income for the year	-	-	-	21,594	127,031	3,715,901	3,864,526	(21,150)	3,843,376
Transactions with owners, recorded directly in equity									
Sales of treasury shares	-	-	9,334	-	-	-	9,334	-	9,334
Share options exercised	-	-	-	-	-	155	155	-	155
Total transactions with owners	-	-	9,334	-	-	155	9,489	-	9,489
Balance at 31 December 2010	35,371,898	6,818,747	(411,060)	54,215	127,031	22,981,996	64,942,827	28,153	64,970,980

General Director

Chief Accountant

6 March 2011



E. Viale

E.A. Dubtcova

The notes on pages 10 to 39 are an integral part of these consolidated financial statements.

OJSC Enel O GK-5
Consolidated Statement of Changes in Equity for the year ended 31 December 2011
Thousands of Russian Roubles, unless otherwise stated

	Attributable to equity holders of OJSC Enel O GK-5									
	Note	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		35,371,898	6,818,747	(411,060)	54,215	127,031	22,981,96	64,942,827	28,153	64,970,980
Profit for the year		-	-	-	-	-	4,974,953	4,974,953	(11,370)	4,963,583
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges, net of tax	21	-	-	-	-	253,659	-	253,659	-	253,659
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	(32,855)	-	-	(32,855)	-	(32,855)
Total other comprehensive income		-	-	-	21,360	380,690	-	402,050	-	402,050
Total comprehensive income for the year		-	-	-	21,360	380,690	4,974,953	5,377,003	(11,370)	5,365,633
Balance at 31 December 2011		35,371,898	6,818,747	(411,060)	21,360	380,690	27,956,949	64,942,827	16,783	70,155,367

General Director

Chief Accountant

6 March 2011

E. Viale

E.A. Dubtcova

The notes on pages 10 to 39 are an integral part of these consolidated financial statements.

1 BACKGROUND

(a) Organisation and operations

Open Joint-Stock Company Enel OGK-5 (the "Company", previously known as OJSC "The Fifth Generating Company of the Wholesale Electric Power Market") was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

On 9 February 2007 the Board of Directors of RAO "UES of Russia" ("RAO UES") approved the change of its interest in the Company from 75.03% to 50% by disposing 8,853,757,803 ordinary non-documentary shares of the Company (25.03%) through the open auction sale.

The open auction for the sale of 25.03% of the Company shares owned by RAO UES was held on 6 June 2007. Enel Investment Holding B.V. won the auction. During 2007-2008 the stock of Enel Investment Holding B.V. increased several times and by the end of 2008 it was 55.86%. In December 2009 as a result of option plan exercising the participation of Enel Investment Holding B.V. in the share capital of the Company increased up to 56.33%. Ultimate parent company is Enel S.p.A.

The Enel OGK-5 Group (the "Group") operates 4 State District Power Plants ("SDPP") and its principal activity is electricity and heat generation. The Group includes:

- a wholly-owned subsidiary LLC "OGK-5 Finance";
- 60% owned subsidiary OJSC "Teploprogress". The State Property Committee of Sredneursk holds the remaining 40% ownership interest in OJSC "Teploprogress".

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company's office is located at bld. 1, 7, Pavlovskaya, 115093, Moscow, Russia.

(b) Relations with the State and its influence on the Group's activities

Until March 2011 the Government of the Russian Federation, represented by the Federal Agency of Property Management, had a party with a significant influence after the spin-off, owning 26.43% of shares of the Company. In March 2011 the shares were transferred to OJSC "Inter RAO UES".

The Group's customer base includes a large number of entities controlled by or related to the state. Moreover, the state controls a number of the Group's fuel and other suppliers.

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Tariff Service ("FTS"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs") or by the Regional Tariff Services ("RTSs"), with respect to its heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator – the Central Despatch Unit of Unified Energy System" ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by NP "Administrator of trade system".

Effective 1 January 2011 tariffs and contracts for corporate customers are not regulated.

Non-regulated prices for energy sales are defined through Day ahead market spot price (main part) and Free bilateral contracts – financial contracts on delivery of certain energy volumes to specific customers.

Non-regulated prices for capacity sales for existing power plants are defined through Long term capacity market (KOM) – competitive selection of capacity and application of price cap where competition is limited.

Capacity payment mechanism (DPM) for new investments provides for guaranteed remuneration (capacity payment) for 10 years based on fixed costs recovery and priority in the market access.

Tariffs which the Group may charge for sales of electricity to households and heat tariffs continue to be regulated. Tariffs are calculated in accordance with the "direct Cost-Plus" or "indexation Cost-Plus" method (variable cost for power tariff and fixed costs for capacity tariff). Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

As described in Note 24, the government's economic, social and other policies could have material effects on the operations of the Group.

(c) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop still, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standard ("IFRS"). Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss, financial investments classified as available-for sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand, except where otherwise indicated. Each entity in the Group determines the same functional currency and items included in the financial statements of each entity are measured using that functional currency.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual outcomes may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the consolidated financial statements is described below:

Impairment of trade accounts receivable

Management believes that the majority of customers, the balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power, which is regulated by NP ATS (Non-commercial Partnership "Administrator of Trade System").

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

Further details about the assumptions used are given in Note 8.

Useful lives of property, plant and equipment

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

Further details about the useful lives applied are given in Note 3 (e).

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Further details about the assumptions used are given in Note 14.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details about the assumptions used are given in Note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest has been presented as part of equity.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 8), long-term loans issued (Note 7), bank deposits and bank bills of exchange.

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

Held-to-maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the comprehensive income as part of finance income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income. Impairment losses recognised in the comprehensive income on equity instruments are not reversed through profit or loss.

Except for loans and receivables and available-for-sale investments, the Group did not have other financial assets in the year ended 31 December 2010 or the year ended 31 December 2011.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement in other financial expenses.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

(d) Equity

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

Dividends

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

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the asset when it is available for use.

The estimated useful lives of assets by type of facility are as follows:

- | | |
|-----------------------------------|--------------|
| • Electricity and heat generation | 9-60 years; |
| • Electricity transmission | 8-33 years; |
| • Heating networks | 15-41 years; |
| • Other | 6-63 years. |

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

(f) Intangible assets

(i) Patents and licenses

Patents and licenses that are acquired by the Group are measured on initial recognition at cost at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in the profit or loss as incurred.

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognised in the income statement as an operating expense.

The useful life of intangible assets is 5-10 years.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

(h) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

(i) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

The Group capitalises borrowing costs in qualifying assets in accordance with IAS 23 *Borrowing Costs*.

(j) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on investment grade bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

Past service cost related to defined benefit pension plans is recognised 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 recognizes past service cost immediately.

(ii) Share-based payment transactions

The share option plan allows Group employees to acquire shares of the Company. The grant date fair value of share-based payment awards granted to employees is recognised as an expense, over the period fair value of the options is measured at grant date and considers the period for which employees become unconditionally entitled to the options. The fair value of the options is then expensed between the grant date and the vesting date written into the share option contract. The fair value of the options is measured based on the Black-Scholes-Merton model, which takes into account the terms and conditions upon which the instruments were granted.

(k) Provisions

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

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 17).

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Environmental obligations

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

(m) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

(n) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax.

(o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and impairment losses on financial assets other than trade receivables (see note 21). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, such as items recognised in equity at preparing the Group's first set of consolidated IFRS financial statements, or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(r) Segment reporting

The Group has a single reportable segment – the generation of electric power and heat in the Russian Federation as the management does not review profit measures for SDPPs or any other components in order to make a decision about allocation of resources. The Group generates its revenues from the generation of electricity and heat in the Russian Federation. The Group holds assets in the same geographical area – the Russian Federation.

(s) New and amended standards and interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(t) Standards issued but not yet effective

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively.

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have an impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(d) Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

5 PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2011	46,547,306	3,665,543	604,796	15,668,711	33,839,237	100,325,593
Additions	169	-	-	142,363	17,070,677	17,213,209
Transfers from construction in progress	19,261,862	4,128,070	-	4,094,646	(27,484,578)	-
Disposals	(78,790)	(200)	(16)	(71,201)	-	(150,206)
Impairment loss	-	-	-	-	(1,098,200)	(1,098,200)
At 31 December 2011	65,730,547	7,793,413	604,780	19,834,519	22,327,137	116,290,396
Accumulated depreciation						
At 1 January 2011	7,161,640	1,298,347	97,506	3,629,017	-	12,186,510
Depreciation charge	1,808,276	314,250	17,715	1,031,863	-	3,172,104
Disposals	(34,633)	(160)	(10)	(37,302)	-	(72,105)
At 31 December 2011	8,935,283	1,612,437	115,211	4,623,578	-	15,286,509
Net book value at 1 January 2011	39,385,666	2,367,196	507,290	12,039,694	33,839,237	88,139,083
Net book value at 31 December 2011	56,795,263	6,180,976	489,569	15,210,941	22,327,137	101,003,887
Cost						
At 1 January 2010	42,936,211	3,374,001	599,641	13,065,093	28,126,302	88,101,248
Additions	1,484	-	-	216,948	13,350,438	13,568,870
Transfers from construction in progress	3,637,865	297,625	5,155	2,500,281	(6,440,926)	-
Disposals	(28,254)	(6,083)	-	(113,611)	(541,605)	(689,553)
Impairment loss	-	-	-	-	(654,972)	(654,972)
At 31 December 2010	46,547,306	3,665,543	604,796	15,668,711	33,839,237	100,325,593
Accumulated depreciation						
At 1 January 2010	5,597,085	990,859	80,328	2,813,695	-	9,481,967
Depreciation charge	1,569,703	310,015	17,178	855,083	-	2,751,979
Disposals	(5,148)	(2,527)	-	(39,761)	-	(47,436)
At 31 December 2010	7,161,640	1,298,347	97,506	3,629,017	-	12,186,510
Net book value at 1 January 2010	37,339,126	2,383,142	519,313	10,251,398	28,126,302	78,619,281
Net book value at 31 December 2010	39,385,666	2,367,196	507,290	12,039,694	33,839,237	88,139,083

At 31 December 2011 construction in progress includes prepayments for property, plant and equipment of RUB 5,107,272 thousand (31 December 2010: RUB 6,828,482 thousand).

The Group recognized an additional impairment loss in the amount of RUB 1,098,200 thousand (31 December 2010: RUB 654,972 thousand) in respect of prepayments made to a contractor with whom the Group cancelled construction contracts. The Group is currently involved in litigation with the contractor to recover the prepayments.

During the year ended 31 December 2011 the Group capitalized borrowing costs in the amount RUB 1,035,783 thousand into property, plant or equipment (31 December 2010: RUB 765,783 thousand). The Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on specific borrowings. The weighted average effective capitalization rate amounted to 5% in 2011 (8% in 2010).

As at 31 December 2011 and 31 December 2010, no property, plant or equipment was pledged as collateral according to loan agreements.

(a) Operating leases

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group holds lease agreements in respect of these land plots with local governments.

The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular reviews that may result in adjustments to reflect market conditions.

Non-cancellable operating lease rentals are payable for land plots as follows:

	31 December 2011	31 December 2010
Not later than one year	25,502	28,176
Later than one year and not later than five years	41,825	64,474
Later than five years	19,354	29,783
Total	86,681	122,433

6 INTANGIBLE ASSETS

	Patents and licenses	Software	Total
Cost			
At 1 January 2011	72,559	754,979	827,538
Additions	271	275,809	276,080
At 31 December 2011	72,830	1,030,788	1,103,618
Accumulated amortisation			
At 1 January 2011	16,956	112,286	129,242
Amortisation charge	21,750	134,076	155,826
At 31 December 2011	38,706	246,362	285,068
Net book value at 1 January 2011	55,603	642,693	698,296
Net book value at 31 December 2011	34,124	784,426	818,550
	Patents and licenses	Software	Total
Cost			
At 1 January 2010	43,007	346,709	389,716
Additions	29,552	408,270	437,822
At 31 December 2010	72,559	754,979	827,538
Accumulated amortisation			
At 1 January 2010	8,849	71,273	80,122
Amortisation charge	8,107	41,013	49,120
At 31 December 2010	16,956	112,286	129,242
Net book value at 1 January 2010	34,158	275,436	309,594
Net book value at 31 December 2010	55,603	642,693	698,296

Intangible assets mostly represent the costs associated with SAP/R3 implementation.

7 OTHER NON-CURRENT ASSETS

	<u>31 December 2011</u>	<u>31 December 2010</u>
Prepayments issued to fuel suppliers	-	446,443
Long-term other receivables	362,629	163,407
Promissory notes	92,861	-
Other	265,376	216,393
Total	<u>720,866</u>	<u>826,243</u>

Long-term other receivables include mostly the non-current portion of loans given to the Group's employees.

Promissory notes are those obtained by the Group in a settlement for certain overdue trade accounts receivable. They are accounted as held-to-maturity financial assets.

8 TRADE AND OTHER RECEIVABLES

	<u>31 December 2011</u>	<u>31 December 2010</u>
Trade receivables (net of impairment allowance of RUB 534,927 thousand at 31 December 2011, RUB 448,209 thousand at 31 December 2010)	4,791,730	3,345,601
Interest receivable	-	1,184
Prepayments issued to suppliers	836,150	1,446,511
Value added tax recoverable (net of impairment allowance of RUB 313,321 thousand at 31 December 2011)	1,338,240	964,114
Value added tax deposit paid to customs	-	1,516,396
Other miscellaneous prepayment and receivables (net of impairment allowance of RUB 4,609 thousand at 31 December 2011 and RUB 4,609 thousand at 31 December 2010)	671,544	277,717
Total	<u>7,637,664</u>	<u>7,551,523</u>

The Group does not hold any collateral as security.

The table below provides information about the changes in allowance for impairment of receivables:

	<u>For the year ended 31 December 2011</u>	<u>For the year ended 31 December 2010</u>
At 1 January	452,818	276,024
Charge for the year	651,912	290,324
Unused amounts reversed	(251,873)	(101,393)
Utilised	-	(12,137)
At 31 December	<u>852,857</u>	<u>452,818</u>

9 INVENTORIES

	<u>31 December 2011</u>	<u>31 December 2010</u>
Fuel supplies	2,409,614	1,326,309
Materials and supplies	757,700	543,291
Spare parts and other inventories	172,060	507,267
Total inventories	<u>3,339,374</u>	<u>2,376,867</u>
Less: Provisions for obsolescence of inventories	(14,640)	(14,529)
Total	<u>3,324,734</u>	<u>2,362,338</u>

As at 31 December 2011 and as at 31 December 2010 none of the inventories held were pledged as collateral according to loan agreements.

OJSC Enel OGK-5**Notes to Consolidated Financial Statements for the year ended 31 December 2011***Thousands of Russian Roubles, unless otherwise stated***10 CASH AND CASH EQUIVALENTS**

	31 December 2011	31 December 2010
Bank balances	126,383	102,785
Call deposits	4,610,607	433,856
Total	4,736,990	536,641

The currency of cash is the Russian Rouble, EUR and US dollar.

The Group's exposure to interest rate and currency risk is disclosed in Note 21.

11 EQUITY**(a) Share capital**

The Group's share capital as at 31 December 2011 and 2010 was RUB 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RUB 1.00. All shares authorised are issued and fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Treasury shares

The nominal value of treasury shares as at 31 December 2011 and 2010 was RUB 156,223 thousand.

(c) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The dilutive potential of share-based payments is not considered as the effect is immaterial.

	For the year ended 31 December 2011	For the year ended 31 December 2010
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	(156,222)	(158,237)
Weighted average number of shares outstanding, in thousands	35,215,676	35,213,661
Profit attributable to shareholders of OJSC Enel OGK-5	4,974,953	3,715,901
Profit per share – basic and diluted (RUB per share)	0.1413	0.1055

12 INCOME TAXES

	For the year ended 31 December 2011	For the year ended 31 December 2010
Current income tax expense	354,796	954,668
Deferred tax expense/(benefit)	953,364	(49,753)
Total income tax expense	1,308,160	904,915

During the year ended 31 December 2011, the Group entities were subject to 20% income tax rate on taxable profits. This rate was used for the calculation of the deferred tax assets and liabilities.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

A reconciliation of the theoretical income tax, calculated at the tax rate effective in the Russian Federation, to the amount of actual income tax expense recorded in the statement of comprehensive income, is as follows:

	For the year ended 31 December 2010		For the year ended 31 December 2010	
Profit before income tax	6,271,743	100%	4,599,666	100%
Income tax at applicable tax rate	(1,254,349)	20%	(919,933)	20%
(Non-deductible expenses)/non-taxable income	(53,811)	-	15,018	-
	(1,308,160)	21%	(904,915)	20%

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
<i>Tax effect of deductible temporary differences</i>				
Trade and other receivables	184,221	(8,395)	-	175,826
Non-current loans and borrowings	61,637	81,612	-	143,249
Provisions	440,278	(233,017)	-	207,261
Employee benefits	69,956	33,321	-	103,277
Other	119,491	35,855	-	155,346
Deferred tax assets	875,583	(90,624)	-	784,959
<i>Tax effect of taxable temporary differences</i>				
Property, plant and equipment	(7,005,203)	(887,210)	-	(7,892,413)
Inventories	(2,385)	(921)	-	(3,306)
Trade and other receivables	(91,180)	(64,297)	-	(155,477)
Other	(161,838)	89,688	(55,201)	(127,351)
Deferred tax liabilities	(7,260,606)	(862,740)	(55,201)	(8,178,547)
Net deferred tax liabilities	(6,385,023)	(953,364)	(55,201)	(7,393,588)
	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
<i>Tax effect of deductible temporary differences</i>				
Trade and other receivables	146,940	37,281	-	184,221
Non-current loans and borrowings	15,507	46,130	-	61,637
Provisions	177,907	262,371	-	440,278
Employee benefits	46,743	23,213	-	69,956
Inventories	4,332	(4,332)	-	-
Other	32,530	86,961	-	119,491
Deferred tax assets	423,959	451,624	-	875,583
<i>Tax effect of taxable temporary differences</i>				
Property, plant and equipment	(6,681,314)	(323,889)	-	(7,005,203)
Inventories	-	(2,385)	-	(2,385)
Trade and other receivables	(65,243)	(25,937)	-	(91,180)
Other	(76,204)	(49,660)	(35,974)	(161,838)
Deferred tax liabilities	(6,822,761)	(401,871)	(35,974)	(7,260,606)
Net deferred tax liabilities	(6,398,802)	49,753	(35,974)	(6,385,023)

13 LOANS AND BORROWINGS

	Currency	Maturity	31 December 2011		31 December 2010	
			Carrying value	Face value	Carrying value	Face value
<i>Non-current borrowings</i>						
Royal Bank of Scotland	EUR	2022	7,139,016	7,623,372	5,088,443	5,434,413
EBRD	EUR	2021	4,433,347	4,474,193	4,792,697	4,839,972
EIB	EUR	2025	5,318,525	5,333,939	1,364,056	1,371,325
Sberbank	RUR	2015	5,000,000	5,000,000	-	-
Commercial papers	RUB	2014	5,000,000	5,000,000	-	-
Commercial papers	RUB	2013	4,000,000	4,000,000	4,000,000	4,000,000
Total non-current borrowings			30,890,888	31,431,504	15,245,196	15,645,710

	Currency	31 December 2011		31 December 2010	
		Carrying value	Face value	Carrying value	Face value
<i>Current borrowings and current portion of non-current borrowings</i>					
Current portion of non-current borrowings (Royal Bank of Scotland)	EUR	762,337	762,337	493,996	493,996
Current portion of non-current borrowings (EBRD)	EUR	526,375	526,375	-	-
Bonds	RUB	-	-	5,000,000	5,000,000
Total current borrowings		1,288,712	1,288,712	5,493,996	5,493,996

At the end of 2010 the interest rates varied from 4.33% to 5.04% for borrowings nominated in EUR and from 7.5% to 7.9% for borrowings nominated in RUB. All loans and borrowings are unsecured.

In June 2011 the Company issued non-convertible commercial papers with a carrying amount of RR 5,000,000 thousand and 3 year maturity period. The coupon rate for commercial papers was set at 7.1%. The coupon period is 182 days.

14 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial estimations used for the year ended 31 December 2011 and for the year ended 31 December 2010. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	31 December 2011	31 December 2010
Present value of defined benefit obligation	1,625,071	1,581,716
Unrecognised actuarial losses	(807,393)	(730,674)
Unrecognised past service costs	(317,358)	(501,261)
Net pension liabilities in the statement of financial position	500,320	349,781

Amounts recognised in profit or loss are as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2010
Current service cost	108,695	98,780
Interest cost	118,293	129,365
Amortisation of past service cost	92,118	92,118
Net actuarial loss recognised in the period	51,091	30,001
Curtailment gain	(57,988)	-
Total expense recognised in profit or loss	312,209	350,264

OJSC Enel OGK-5**Notes to Consolidated Financial Statements for the year ended 31 December 2011***Thousands of Russian Roubles, unless otherwise stated*

Changes in the present value of the Group's employee benefit obligations are as follows:

	<u>For the year ended 31 December 2011</u>	<u>For the year ended 31 December 2010</u>
Present value of defined benefit obligations at the beginning of year	1,581,716	1,398,466
Current service cost	108,696	98,780
Interest cost	118,293	129,365
Past service cost	-	(39,845)
Benefits paid	(161,670)	(234,197)
Actuarial loss on obligation	275,798	229,147
Curtailment effect	(297,762)	-
Present value of defined benefit obligation at the end of period	1,625,071	1,581,716

Principal actuarial assumptions are as follows:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Nominal discount rate	8.64%	7.75%
Future salary increase	7.0%	7.0%
Future pensions increase and inflation rate	6.0%	6.0%

The mortality table that has been used is Russian Federation 1998. This table is typically used in similar actuarial valuations of other Russian companies.

The retirement table that has been used is a table based on the Company's statistics on retirements. The usage of such a table is reasonable as it represents company specific experience of employees' retirement rates.

Historical information

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>	<u>31 December 2008</u>	<u>31 December 2007</u>
Present value of defined benefit obligation	1,625,071	1,581,716	1,398,466	1,451,398	1,214,960
Deficit in plan	1,625,071	1,581,716	1,398,466	1,451,398	1,214,960
Losses arising from experience adjustments on plan liabilities	(489,874)	(167,472)	(321,358)	(382,401)	(12,323)

Expected benefit payments under the schemes during the year ended 31 December 2012 are RUB 63,331 thousand.

15 TRADE AND OTHER PAYABLES

	<u>31 December 2011</u>	<u>31 December 2010</u>
Trade payables	4,347,426	3,078,880
Accrued liabilities and other payables	1,245,380	961,783
Interest payable	83,140	266,821
Dividends payable	-	4,383
Total	5,675,946	4,311,867

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

16 OTHER TAXES PAYABLE

	<u>31 December 2011</u>	<u>31 December 2010</u>
Value added tax	1,241,230	617,253
Property tax	139,322	180,902
Payroll tax	4,520	13,423
Other taxes	38,188	257,600
Total	1,424,260	1,069,178

17 PROVISIONS

	Restructuring	Onerous contract	Provision for legal claims	Other	Total
Balance at 1 January 2011	608,301	515,502	760,000	317,588	2,201,391
Provisions made during the period	-	-	20,242	458,049	478,291
Unwinding of discount	142,898	137,407	-	-	280,305
Provision reversed during the period	-	(251,010)	(619,369)	-	(870,379)
Provisions used during the period	(110,828)	(69,600)	(100,630)	(458,858)	(739,918)
Balance at 31 December 2011	640,370	332,299	60,242	316,779	1,349,690
Non-current	247,315	267,115	-	-	514,430
Current	393,055	65,184	60,242	316,779	835,260
Total	640,370	332,299	60,242	316,779	1,349,690

	Restructuring	Onerous contract	Provision for legal claims	Other	Total
Balance at 1 January 2010	492,624	154,894	-	242,019	889,537
Provisions made during the period	139,286	487,002	760,000	259,581	1,645,869
Unwinding of discount	12,285	(58,243)	-	-	(45,958)
Provisions used during the period	(35,894)	(68,150)	-	(184,012)	(288,056)
Balance at 31 December 2010	608,301	515,503	760,000	317,588	2,201,392
Non-current	451,486	445,903	-	-	897,389
Current	156,815	69,600	760,000	317,588	1,304,003
Total	608,301	515,503	760,000	317,588	2,201,392

(a) Restructuring

In 2008 management approved a five-year headcount restructuring plan which is aimed at aligning the headcount/Megawatt ratio to the best international standards in the power sector, changing the quality mix of staff and decreasing the average age of employees.

These goals will be achieved through the optimization of processes and organizational structure, the centralization of staff functions and processes, the development of multi-skill competencies, the adoption of new IT platform (SAP/R3) and decommissioning of old units.

The provision is based on estimates of the staff reduction and average salaries.

In 2010 management revised the restructuring plan in respect of the number of redundancies for 2010-2013.

(b) Onerous contract

The onerous contract provision relates to future supplies to customers from the Caucasus region. The provision is based on estimates of incremental costs associated with electricity supplies. The Group expects the resulting outflow of economic benefits over the next five years.

(c) Provision for legal claims

Further to the change of ownership the Company decided to cancel certain contracts on the basis that they were signed on terms different from arm length's market practices. The counter-parties of the cancelled agreements have filed court cases against the Company, trying to recover the lost benefits or seeking damages. The total provision made in 2010 in relation to these cases amounts to RUB 760,000 thousand which represents management's best estimate of the obligation. In 2011 provision was released in amount of RUB 619,369 thousand

Further to the change of ownership the Company decided to cancel certain contracts on the basis that they were signed on terms different from arm length's market practices. The counter-parties of the cancelled agreements have filed court cases against the Company, trying to recover the lost benefits or seeking damages. The total provision made in 2010 in relation to these cases amounts to RUB 760,000 thousand which represents management's best estimate of the obligation. In 2011 provision was released in amount of RUB 619,369 thousand

(d) Other

Other provisions include provision for annual bonus to employees and provision for unused vacation.

18 REVENUE

	For the year ended 31 December 2011	For the year ended 31 December 2010
Electricity	56,549,567	49,480,055
Heating	3,112,931	2,640,026
Water for heating network	252,521	211,976
Rent	82,642	62,385
Water circulation	13,020	57,274
Other	91,810	108,866
Total	60,102,491	52,560,582

19 OPERATING EXPENSES

	Notes	For the year ended 31 December 2011	For the year ended 31 December 2010
Fuel cost		32,854,050	29,561,021
Purchased electricity		4,832,820	3,119,241
Employee benefits		3,622,030	3,087,093
Depreciation and amortisation of property, plant and equipment and intangible assets	5	3,327,930	2,801,099
Provisions	17	(1,132,006)	1,645,869
Impairment loss in respect of property, plant and equipment	5	1,098,200	654,972
Taxes other than income tax and payroll taxes		935,840	827,023
Repairs and technical maintenance		829,370	1,334,374
Fees to Trade System Administrator, Centre of financial settlements and System Operator		857,393	680,555
Water usage		784,001	735,329
Raw materials and supplies		742,700	189,059
Advisory, legal and information services		448,620	530,375
Allowance for impairment of trade and other receivables		400,039	176,794
Security		157,130	186,599
Lease costs		126,220	122,140
Transport cost		114,140	98,333
Loss on disposal of property, plant and equipment		48,441	639,646
Insurance		47,160	32,968
Other		1,842,231	722,455
Total		51,936,309	47,144,945

Employee benefits expenses comprise the following:

	For the year ended 31 December 2011	For the year ended 31 December 2010
Wages and other benefits to employees and related taxes	3,309,821	2,896,040
Share option plan	-	155
Non-governmental pension fund expenses (Note 14)	312,209	190,898

20 FINANCE INCOME AND FINANCE COSTS

	<u>For the year ended 31 December 2011</u>	<u>For the year ended 31 December 2010</u>
Interest income	71,170	66,458
Exchange differences	-	908,642
Change in fair value of derivatives, net	186,270	-
Finance income	<u>257,440</u>	<u>975,100</u>
Interest expense	(1,352,950)	(1,031,729)
Effect of discounting, net	(486,250)	(205,002)
Exchange differences	(804,860)	-
Change in fair value of derivatives	-	(712,769)
Other financial expenses	(65,700)	(74,343)
Finance costs	<u>(2,709,760)</u>	<u>(2,023,843)</u>

Interest expense relates to financial liabilities measured at amortised cost.

Finance income arose from interest accrued on call deposits, maintained with commercial banks.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, forex risk and the collectability of receivables.

In the course of 2010 the Group implemented operating and financial risk assessment through the analysis of the main business processes and put in place internal control system on financial reporting.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any counterparty to fail to meet its obligations.

(iii) Cash balances and deposits

The majority of cash balances and short-term deposits are held with reliable banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status.

(iv) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Available-for-sale financial assets	52,960	86,590
Trade and other receivables	5,463,274	3,624,502
Cash and cash equivalents	4,736,990	536,641
Long-term trade and other receivables	455,490	163,407
Total	<u>10,708,714</u>	<u>4,411,140</u>

The aging of trade and other receivables at the reporting date was:

	<u>31 December 2011</u>		<u>31 December 2010</u>	
	<u>Gross</u>	<u>Impairment allowance</u>	<u>Gross</u>	<u>Impairment allowance</u>
Not past due	3,427,251	-	2,911,532	-
Past due for less than 3 months	843,754	47,928	286,034	9,225
Past due for 3 to 12 months	834,028	28,486	546,430	150,771
Past due for more than one year	885,838	447,884	333,324	292,822
Total	<u>5,990,871</u>	<u>524,298</u>	<u>4,077,320</u>	<u>452,818</u>

For the year ended 31 December 2011 the Group has revenues of RUB 38,537,310 thousand from transactions with a single external customer (2010: RUB 27,496,190 thousand).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group have already attracted long-term financing for 12-15 years. The short term financing for not more than 1 year is attracted to cover the temporary cash shortage for operating activity. The given allocation of financial liabilities by terms enables to ensure that:

- at the required moment the Group has the needed amount of monetary funds in order to fulfill all required financial liabilities of the Group;
- at the required moment the Group will be able to redeem all its financial liabilities in full.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(i) *Non-derivative financial liabilities*

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
<i>At 31 December 2011</i>					
Bank loans	23,179,600	23,720,216	1,288,712	16,548,258	13,883,246
Commercial papers	9,000,000	9,000,000	-	9,000,000	-
Trade and other payables	5,675,946	5,675,946	5,675,946	-	-
Total	37,855,546	38,396,162	6,964,658	25,548,258	13,883,246
<i>At 31 December 2010</i>					
Bank loans	11,739,192	12,139,706	493,996	4,157,018	7,488,692
Commercial papers	4,000,000	4,000,000	-	4,000,000	-
Bonds	5,000,000	5,000,000	5,000,000	-	-
Trade and other payables	4,311,867	4,311,867	4,311,867	-	-
Total	25,051,059	25,451,573	9,805,863	8,157,018	7,488,692

(ii) *Derivative financial assets and liabilities*

	Carrying amount	Contractual cash flows	1 year	1-2 years	2-3 years	3-4 years
<i>At 31 December 2011</i>						
Currency and interest rate swaps	(61,330)	(132,446,690)	(38,663,657)	(34,910,942)	(31,264,989)	(27,607,101)
Forward exchange contracts:						
Outflow	(111,660)	(8,357,132)	(8,357,132)	-	-	-
Inflow	-	8,468,792	8,468,792	-	-	-
Total	(172,990)	132,335,030	38,551,997	(34,910,942)	(31,264,989)	(27,607,101)

	Carrying amount	Contractual cash flows	1 year	1-2 years	2-3 years	3-4 years	4-5 years
<i>At 31 December 2010</i>							
Currency and interest rate swaps	(245,794)	(1,143,641)	(303,208)	(291,904)	(230,504)	(184,425)	(133,600)
Forward exchange contracts:							
Outflow	(308,186)	(6,967,915)	(6,967,915)	-	-	-	-
Inflow	-	6,659,729	6,659,729	-	-	-	-
Total	(553,980)	(1,451,827)	(611,394)	(291,904)	(230,504)	(184,425)	(133,600)

	31 December 2011	31 December 2010	Recognised in profit or loss	Recognised in other comprehensive income
Fair values				
Currency and interest rate swap	108,460	-	-	108,460
Derivative assets	108,460	-	-	108,460
Currency and interest rate swap	(169,790)	(245,794)	-	76,004
Forwards	(111,660)	(308,186)	196,526	-
Derivative liabilities	(281,450)	(553,980)	196,526	184,468

Swaps measured at fair value through other comprehensive income and are designated as hedging instruments in cash flow hedges of euro denominated borrowings.

These hedges were assessed to be highly effective and net unrealised gains of RUB 132,606 thousand, with a deferred tax liability of RUB 26,521 thousand are included within other comprehensive income for 2011 (2010: RUB 404,583 thousand and RUB 80,917 thousand respectively). No significant element of ineffectiveness required recognition in the consolidated income statement.

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk, these other contracts are not designated in hedge relationships and are measured at fair value through profit and loss.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The risk management strategy of the Group is aimed to minimize currency risks to which the Group is exposed. For this reason the hedging strategy is implemented through derivative transactions, whereby the major risk is attributed to borrowings and other liabilities when such are denominated in currencies other than the functional currency of the Company.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2011		31 December 2010	
	USD	EUR	USD	EUR
Bank loans	-	(18,720,216)	-	(12,139,706)
Trade and other payables	(8,564)	(860,383)	(77,602)	(755,995)
Gross exposure	(8,564)	(19,580,599)	(77,602)	(12,895,701)
Interest rate swaps used for hedging	-	5,025,593	-	4,261,047
Forward exchange contracts	-	8,360,684	-	6,507,334
Net exposure	(8,564)	(6,194,322)	(77,602)	(2,127,320)

The following significant exchange rates applied during the period:

RUB	Average rate		Reporting date spot rate	
	For the year ended 2011	For the year ended 2010	31 December 2011	31 December 2010
USD	29.3500	30.3692	32.1961	30.4769
EUR	40.8700	40.2980	41.6714	40.3331

Sensitivity analysis

A strengthening of the Russian rouble, as indicated below, against the USD and EUR at 31 December 2011 and 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect in thousands of Russian roubles

	Profit or loss
At 31 December 2011	
EUR (10 percent strengthening)	1,958,060
USD (10 percent strengthening)	856
At 31 December 2010	
EUR (10 percent strengthening)	1,289,477
USD (10 percent strengthening)	7,760

A weakening of the Russian rouble against the above currencies at 31 December 2011 and 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The financing strategy of the Group envisages appropriate hedging against interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2011	31 December 2010
<i>Fixed rate instruments</i>		
Financial assets	4,610,607	433,856
Financial liabilities	(27,219,878)	(15,946,495)
	(22,609,271)	(15,512,639)
<i>Variable rate instruments</i>		
Financial liabilities	(4,963,722)	(4,792,697)
	(4,963,722)	(4,792,697)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss because the Group uses the cross currency interest rate swaps to transform variable rate liability into fixed -rate liability.

(e) Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities at 31 December 2011 approximates their carrying value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2011	2010
Derivatives	4.9% - 8.18%	4.9% - 8.18%
Loans and borrowings	4.3% - 7.9%	4.3% - 12.3%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
31 December 2011				
Available-for-sale financial assets	52,960	-	-	-
	52,960	-	-	-
Interest rate swaps used for hedging	-	61,330	-	61,330
Forward exchange contracts	-	111,660	-	111,660
	-	172,990	-	172,990

	Level 1	Level 2	Level 3	Total
31 December 2010				
Available-for-sale financial assets	86,590	-	-	86,590
	86,590	-	-	86,590
Interest rate swaps used for hedging	-	245,794	-	245,794
Forward exchange contracts	-	308,186	-	308,186
	-	553,980	-	553,980

(f) Capital risk management

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

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater 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 greater than statutory net assets of the entity, such entity is subject to liquidation, if not rectified within 6 months after the year end.

As at 31 December 2010, the Group has been 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	31 December 2011	31 December 2010
Total borrowings (Note 13)	32,179,600	20,739,192
Less: Cash and cash equivalents (Note 10)	(4,736,990)	(536,641)
Net debt	27,442,610	20,202,551
Equity	70,138,584	64,942,827
Debt to equity ratio	39.13%	31.11%

22 COMMITMENTS**(a) Fuel commitments**

The Group has entered into several long-term contracts for the supply of gas and coal that will be used in the ordinary course of the Group's activities. The pricing terms of these contracts are based on market prices.

The Group has entered into the contracts for the supply of gas for the needs of the Group's plants – Nevinnomysskaya SDPP, Konakovskaya SDPP and Sredneuralskaya SDPP.

(b) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 8,602,430 thousand at 31 December 2011 (at 31 December 2010: RUB 7,706,988 thousand).

23 CONTINGENCIES

(a) Political environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

(b) Insurance

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks which are not covered by the existing insurance policies.

(c) Legal proceedings

The Group was not a party to any legal proceedings which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Tax contingency

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(e) Environmental matters

The Group and its predecessor 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 being reconsidered. The Group periodically evaluate its 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. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Due to the attraction of financing for an investment project to construct a new combined cycle gas turbine unit with a capacity of 410 MW at Nevinnomysskaya SDPP, the Group undertook to follow EU environmental standards.

This circumstance significantly reduces the risks of the Company as well as the fact that the Company is a material subsidiary of the Enel Group, which pays special attention to environmental and safety matters.

OJSC Enel OGK-5 implements the first project in Russia for the construction of a dry ash removal system at its coalfired power plant, Reftinskaya SDPP. The project implies transition from the outdated hydraulic ash removal to dry ash removal. The total cost of the project is approximately 260 million Euro. Commissioning of the new system is expected for the middle of 2012. As a result of this investment the additional incremental cost to restore the underlying ash dump is reduced significantly but cannot yet be reasonably estimated.

24 RELATED PARTIES DISCLOSURES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, 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.

In the normal course of business the Group enters into transactions with related parties.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by the state.

Transactions with Enel Group

For the year ended 31 December 2011 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2011	For the year ended 31 December 2010
Sale of electricity	725,488	866,354
Other revenue	65,540	3,544

As at 31 December 2011 the Group had the following balances with Enel Group entities:

	31 December 2011	31 December 2010
Trade and other receivables	295,580	6,127
Advances issued for capital construction	249,965	296,881
Trade and other payables	(1,867,500)	(431,755)

Transactions with state controlled entities

In the normal course of business the Group enters into transactions with other entities under government control or significant influence. Prices for natural gas, electricity and heat are based on tariffs set by FTS and RTS. Taxes are charged and paid under the Russian tax legislation.

During the year ended 31 December 2011 the Group purchased more than 90% of natural gas from state controlled entities.

Transactions with other related parties

Transactions with other related parties represent transactions with the pension fund of energy industry (NPF Electroenergetiki). For the year ended 31 December 2011 the Group has expenses of RUB 159,360 thousand from transactions with NPF Electroenergetiki (2010: RUB 218,240 thousand).

For the year ended 31 December 2011 the Group has revenues of RUB 374,764 thousand from transactions with InterRAO UES (2010: RUB 716,150 thousand).

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Total remuneration accrued to the members of the Board of Directors and Management Board For the year ended 31 December 2011 and 2010 was as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2010
Remuneration	123,318	25,603

There were no loans provided to key management personnel during the year ended 31 December 2010.

At 31 December 2011 there were 11 members of the Board of Directors and 4 members of the Management Board.