

Open Joint Stock Company Lenenergo

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards

For the year ended 31 December 2007

Open Joint Stock Company Lenenergo

Consolidated Financial Statements

For the year ended 31 December 2007

Contents

Independent Auditors' Report.....	1
Consolidated Financial Statements	
Consolidated Balance Sheet	3
Consolidated Income Statement.....	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement.....	6
Notes to the Consolidated Financial Statements	7

Independent Auditors' Report

To the Shareholders and Board of Directors of OJSC Lenenergo

We have audited the accompanying consolidated financial statements of OJSC Lenenergo and its subsidiary ("the Group"), which comprise the consolidated balance sheet as at 31 December, 2007, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

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

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

Basis for Qualified Opinion

As described in Note 7 to the accompanying consolidated financial statements the Group owned available-for-sale investments. IAS 39 'Financial Instruments: Recognition and Measurement' requires this category of financial assets to be measured on initial recognition and subsequently at its fair value. The carrying amounts of these available-for-sale investments as at 31 December 2007 and 31 December 2006 did not reflect their respective fair values as no fair value assessment was ever performed for them. The change in fair value of available-for-sale investments enters into the determination of gains and losses on such financial assets recorded within equity and gains and losses recognized in the income statement on their partial derecognition during 2006 and 2007. We are unable to determine the effect of this departure from International Financial Reporting Standards.

Opinion

In our opinion, except for the effects on the consolidated financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

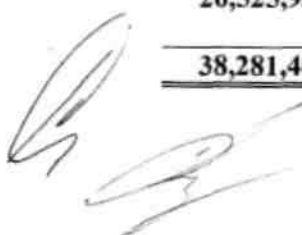
Ernst & Young LLC

22 September 2008
St. Petersburg, Russia

OJSC LENENERGO
Consolidated Balance Sheet as at 31 December 2007
(in thousands of Russian Roubles)

	Note	31 December 2007	31 December 2006 (restated)	31 December 2006
ASSETS				
Non-current assets				
Intangible assets	4	182,065	-	-
Property, plant and equipment	5	23,252,435	14,520,859	14,520,859
Advances for construction of property, plant and equipment	6	3,915,529	2,259,333	2,259,333
Available-for-sale investments	7	384,494	384,494	384,494
Deferred tax assets	26	8,401	-	-
Other non-current assets	8	576,151	387,838	387,838
Total non-current assets		28,319,075	17,552,524	17,552,524
Current assets				
Cash and cash equivalents	9	5,903,078	1,082,229	1,082,229
Accounts receivable	10	1,017,493	1,045,745	2,079,288
Inventories	11	217,923	225,552	225,552
Other current assets	12	2,823,840	1,036,258	2,715
Total current assets		9,962,334	3,389,784	3,389,784
TOTAL ASSETS		38,281,409	20,942,308	20,942,308
EQUITY AND LIABILITIES				
Equity				
Ordinary shares	14	4,631,947	4,631,947	4,631,947
Preference shares	14	625,603	625,603	625,603
Fair value reserve	14	1,871,688	1,885,820	1,885,820
Retained earnings		4,626,232	3,369,278	3,012,454
Total equity		11,755,470	10,512,648	10,155,824
Non-current liabilities				
Long-term borrowings	15	11,555,864	50,784	50,784
Deferred tax liabilities	26	-	125,497	125,497
Post-employment benefits liability	16	277,413	244,564	244,564
Other non-current liabilities	17	3,699,967	2,165,056	2,165,056
Total non-current liabilities		15,533,244	2,585,901	2,585,901
Current liabilities				
Short-term borrowings	18	277,007	4,523,310	4,523,310
Accounts payable and accrued expenses	19	3,034,888	1,418,657	2,896,704
Income tax payable		598,928	231,539	588,363
Other tax payable	20	102,600	192,206	192,206
Other current liabilities	21	6,979,272	1,478,047	-
Total current liabilities		10,992,695	7,843,759	8,200,583
Total liabilities		26,525,939	10,429,660	10,786,484
TOTAL EQUITY AND LIABILITIES		38,281,409	20,942,308	20,942,308

General Director
Chief Accountant
22 September 2008



D.V. Ryabov
G.V. Kuznetsova

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

OJSC LENENERGO

Consolidated Income Statement for the year ended 31 December 2007

(in thousands of Russian Roubles, except per share amounts)

	Note	Year ended 31 December 2007	Year ended 31 December 2006 (restated)	Year ended 31 December 2006
Revenues	22	12,337,880	8,354,099	10,585,142
Operating expenses	23	(10,036,092)	(9,214,815)	(11,445,858)
Operating profit/(loss)		2,301,788	(860,716)	(860,716)
Finance income	24	109,298	1,594,450	1,594,450
Finance expenses	25	(603,322)	(819,691)	(819,691)
Profit/(loss) before tax		1,807,764	(85,957)	(85,957)
Income tax charge	26	(522,545)	(105,342)	(673,106)
Net profit / (loss) for the year		1,285,219	(191,299)	(759,063)
Earnings / (loss) per ordinary share – basic and diluted (Russian Roubles)	27	1.58	(0.24)	(0.97)
Earnings / (loss) per ordinary share – basic and diluted (Russian Roubles)	27	1.58	(0.24)	(0.97)

General Director

D.V.Ryabov

Chief Accountant

G.V.Kuznetsova

22 September 2008

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

OJSC LENENERGO

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

(in thousands of Russian Roubles)

	Share Capital		Fair value reserve	Retained earnings	Total equity
	Ordinary shares	Preference shares			
As at 1 January 2006 (as restated, Note 3)	4,631,947	625,603	81,967	3,195,955	8,535,472
Transfer between reserves	-	-	(81,967)	81,967	-
Net loss for the year (as restated, Note 3)	-	-	-	(191,299)	(191,299)
Revaluation of property, plant and equipment	-	-	2,481,342	-	2,481,342
Tax effect of the revaluation	-	-	(595,522)	-	(595,522)
Available-for-sale investment in a spun- off company received as a result of restructuring	-	-	-	282,655	282,655
At 31 December 2006 (as restated, Note 3)	4,631,947	625,603	1,885,820	3,369,278	10,512,648
Net profit for the year	-	-	-	1,285,219	1,285,219
Dividends for 2006	-	-	-	(42,397)	(42,397)
Release of fair value reserve	-	-	(18,595)	18,595	-
Tax effect of the release of fair value reserve	-	-	4,463	(4,463)	-
31 December 2007	4,631,947	625,603	1,871,688	4,626,232	11,755,470

General Director

D.V.Ryabov

Chief Accountant

G.V.Kuznetsova

22 September 2008

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

OJSC LENENERGO

Consolidated Cash Flow Statement for the year ended 31 December 2007

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Cash flow from operating activities			
Profit/(loss) before tax		1,807,764	(85,957)
Adjustments to reconcile profit/(loss) before tax and net cash flow from operating activities:			
Loss on revaluation of property, plant and equipment	23	-	2,158,914
Finance income	24	(109,298)	(1,594,450)
Depreciation of property, plant and equipment	5, 23	1,104,824	657,950
Amortization of intangible assets	4, 23	22,880	-
Finance expenses	25	603,322	819,691
Provision/(reversal of provision) for impairment of receivables	13, 23	312,524	(322,854)
Provision for impairment of inventories	23	54,427	62,711
Non-cash settlements for technological connection revenue	22	(710,450)	(64,893)
Adjustments for other non-cash operations		134,725	126,502
Operating cash flows before changes in working capital		3,220,718	1,757,614
(Decrease)/increase in accounts payable and accruals		455,246	975,430
(Increase)/decrease in trade and other receivables		(1,903,323)	76,644
Increase in inventories		(46,798)	(67,018)
Increase/(decrease) in taxes payable other than income tax		18,106	(26,292)
Increase in post-employment benefits liability	16	32,849	15,309
Decrease in other current assets		446	2,688
Cash generated from operations		1,777,244	2,734,375
Interest paid		(430,168)	(489,356)
Income tax paid		(334,025)	(839,363)
Net cash generated from operating activities		1,013,051	1,405,656
Cash flow from investment activities			
Proceeds from disposal of available-for-sale investments	7	-	3,947,444
Purchases of property, plant and equipment		(3,568,567)	(2,942,374)
Purchases of intangible assets		(159,460)	-
Increase in advances for construction of property, plant and equipment		(1,585,520)	(1,582,896)
Proceeds from disposal of property, plant and equipment		19,693	29,323
Dividends received	29	45,188	16,960
Interest received		61,629	6,154
Net cash used in investment activities		(5,187,037)	(525,389)
Cash flow from financing activities			
Repayment of borrowings		(6,299,801)	(2,954,622)
Advance contributions received for future share issue	14	3,055,681	-
Proceeds from borrowings		12,589,716	2,917,029
Dividends paid		(42,397)	(298,668)
Repayment of finance lease liabilities		(308,364)	(6,892)
Total cash provided by/(used in) financing activities		8,994,835	(343,153)
Net increase in cash and cash equivalents		4,820,849	537,114
Cash and cash equivalents at the beginning of the year	9	1,082,229	545,115
Cash and cash equivalents at the end of the year	9	5,903,078	1,082,229

General Director

Chief Accountant

22 September 2008

D.V.Ryabov

G.V.Kuznetsova

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements
for the year ended 31 December 2007
(in thousands of Russian Roubles, except per share amounts)

1. The Company

Open joint stock company in Electricity and Electrification Lenenergo (hereinafter – “the Company”) was established on 22 January 1993 as the successor of the rights and obligations of state-owned enterprise Electricity and Electrification Industrial Association Lenenergo to the extent specified in the privatization plan dated 22 December 1992. On 1 October 2005, as a result of corporate restructuring through the spin off of electricity generation and sales, heat generation, distribution and sales businesses, the Company retained the electricity transmission networks. Currently the Company provides electricity transmission and network connection services to the consumers.

As at 31 December 2007 and 2006 Lenenergo Group comprised OJSC Lenenergo and its subsidiary CJSC Lenenergospetsremont (hereinafter collectively referred to as “the Group”). The Group currently operates in two regions of the Russian Federation: the city of St. Petersburg and Leningrad Region.

The registered office of the Company is at 1, Constitution Square, 196247, St. Petersburg. At 31 December 2007 the total number of employees was 5,538 (31 December 2006: 5,254).

Relations with the state and current legislation

The Group is under control of RAO UES of Russia (“RAO UES”) which as at 31 December 2007 owned 59% of the Group’s share capital, including 67% of voting ordinary shares, and which in turn is controlled by the Russian Federation (as at 31 December 2006 RAO UES owned 56% shares in the Group, including 64% of voting ordinary shares). The Group’s provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group’s suppliers are state-controlled entities.

The government directly influences the Group’s operations through the regulation of wholesale electricity sales by the Federal Service on Tariffs (FST) and of retail electricity sales by Regional Electricity commissions for St. Petersburg and Leningrad Region. The Group sets electricity transmission tariffs for its consumers based on regulated tariffs. The Russian Federation government’s economic, social and other policies can have a material effect on the Group’s operations.

On 1 July 2008, following the decision of extraordinary General Shareholders' Meeting of RAO UES of 26 October 2007 on the restructuring of the latter, and in accordance with the RAO UES separation balance sheet, 465,896,500 of the Group shares previously owned by RAO UES were transferred to OJSC Holding MRSK (also ultimately controlled by the Russian Federation).

Financial position and liquidity

As at 31 December 2007 the Group’s current liabilities exceeded its current assets by RR 1,030,361 thousand (31 December 2006: RR 4,453,975 thousand).

The Group’s net profit for the year ended 31 December 2007 was RR 1,285,219 thousand (2006: a net loss of RR 191,299 thousand), in 2007 the Group generated RR 1,013,051 thousand from operating activities (2006: RR 1,405,656 thousand).

The Group’s management is taking the following measures to address the above liquidity issue and improve the Group’s financial position:

- Implementing improved financial budgeting procedures; a strong focus on timely collection of current and outstanding debtor balances; restructuring liabilities to enable their repayment over a longer period;

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

1. The Company (continued)

Financial position and liquidity (continued)

- Negotiating with strategic investors, identifying and assessing projects requiring investment funding;
- Negotiating with federal and regional governments and regulators a real increase in tariffs to support adequate long-term investments into electricity generation, transmission and distribution assets of the Group;
- Improving operating efficiency of the Group through implementation of programs to reduce production costs, purchase inventory, identify potential bidders for construction services, and reduce the technological losses on transmission of energy through the Group's own network.

Management is confident that the implementation of the above measures will result in improvements in the Group's profitability and liquidity, and believes that ultimately a stable regulatory regime in the industry and a competitive energy market will provide significant opportunities for the Group to raise necessary funds to support its operations. Therefore these consolidated financial statements were prepared on a going concern basis.

2. Basis of Presentation of the Financial Statements

2.1 Basis of preparation

These consolidated financial statements were prepared under the historical cost convention, except for the following items: property, plant and equipment, derivative financial instruments and available-for-sale investments which were measured at fair value.

The consolidated financial statements are in Russian roubles, with all amounts rounded to thousands, except where stated otherwise.

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations adopted by the International Accounting Standards Board (IASB).

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. However they resulted in certain additional disclosures, being made, including, in some cases, revisions to accounting policies.

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment - Presentation of Financial Statements*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.2 Changes in accounting policy and disclosures (continued)

The Group has also early adopted the following IFRS and IFRIC interpretations. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including revisions to accounting policies.

- IFRS 8 *Operating Segments*
- IFRIC 11 IFRS 2 - *Group and Treasury Share Transactions*

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or result of operations, comparative information has been revised and additional disclosures made where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as at 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.2 Changes in accounting policy and disclosures (continued)

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

The Group has elected to adopt IFRIC Interpretation 11 as at 1 January 2007, insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the recoverability of non-financial assets, fair values of available-for-sale financial assets, post employment benefits, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Going concern

The financial statements were prepared on a going concern basis assuming that assets will be realised and liabilities paid in the normal course of business. The financial statements do not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

Accounting for connection fee revenue

Management believes that connection fee revenue (one-time fee charged on clients when first connected to power grid) is a necessary prerequisite to the sale of electricity, and, as such, should be recognised immediately at the time when access to electrical power is provided (i.e. at the time of connection). The total connection fee revenue reported in the income statement for the year ended 31 December 2007 was RR 3,493,550 thousand (year ended 31 December 2006: RR 1,996,764 thousand) (Note 22).

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.3 Significant accounting judgments, estimates and assumptions (continued)

Available-for-sale investments

As disclosed in Note 7, as at 31 December 2006 the Group carries in its balance sheet available-for-sale investments in the entities spun off, formed as a result of 2005 restructuring. These available-for-sale investments are carried at a valuation of RR 384,494 thousand, calculated on the basis of the Group's share of the investees' statutory net assets value as at the date of the spin-off). On the basis of available information, management believes that the carrying value of these investments is broadly comparable to their estimated fair value as at 31 December 2007. However, no fair valuation as such of these investments as at 31 December 2007 and 31 December 2006 was made.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date and whenever there are indicators that their carrying amounts may not be recoverable. As at 31 December 2007 the Group didn't identify any impairment indicators for non-financial assets.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. As at 31 December 2007 no impairment losses have been recognised for available-for-sale assets (2006: nil). The carrying amount of available-for-sale assets was RR 384,494 thousand (31 December 2006: RR 384,494 thousand). On the basis of available information, management believes that the carrying value of these investments is broadly comparable to their estimated fair value as at 31 December 2007. However, no fair valuation as such of these investments as at 31 December 2007 and 31 December 2006 was made.

Pension and Other Post Employment Benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of inflation and future salary increases. Due to the long-term nature of these plans, such estimates are subject to uncertainty. The net employee liability under the defined benefit pension plans as at 31 December 2007 was RR 277,413 thousand (2006: RR 244,564 thousand). Further details are given in Note 16.

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.3 Significant accounting judgments, estimates and assumptions (continued)

Impairment provision for accounts receivable

The Group makes impairment provision for accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the impairment provision for accounts receivable recorded in the consolidated financial statements. As at 31 December 2007 allowances for doubtful accounts have been created in the amount of RR 720,020 thousand (as at 31 December 2006: RR 407,496 thousand) (Note 13).

2.4 Summary of Significant Accounting Policies

Foreign currency translation

The consolidated financial statements are presented in roubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when fair value is determined.

Monetary assets and liabilities expressed in foreign currencies are reported in the amounts calculated using the official ruble exchange rate prevailing at 31 December 2007, i.e. RR 24.5462 for 1 USD and RR 35.9332 for 1 Euro (31 December 2006: RR 26.3311 for 1 USD and RR 34.6965 for 1 Euro).

Property, plant and equipment

The Group uses revaluation model prescribed by IFRS (IAS) 16 in recognising the net book value of property, plant and equipment and construction in progress. Property, plant and equipment is stated at a revalued amount, which is their fair value as at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This involves transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

Major renewals and improvements are capitalized, and the assets replaced are retired. Expenditure for routine repairs and maintenance are charged to the income statement as incurred. Profits and losses arising as a result of retirement of property, plant and equipment are immediately recognised in profit or loss.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Construction in progress reflects the net book value of property, plant and equipment items not yet put in operation, and as such, is not depreciated.

Expenditures related to construction or acquisition of social assets are not capitalized as the Group does not expect to receive any future economic benefits from them.

Property, plant and equipment depreciation is calculated on a straight-line basis over the estimated useful life of the asset from the date it is put in operation. For revalued property, plant and equipment, depreciation rates are based on their estimated remaining useful lives as at the valuation date. The estimated useful lives by asset groups, in years, are as follows:

Asset group	Useful life
Production premises	40-50
Power lines	30-40
Equipment, power equipment, sub-stations	25-40
Other	10

The useful lives and residual value of assets and methods are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Impairment of property, plant and equipment

Management assesses whether there are any indicators of impairment for all property, plant and equipment at each reporting date. If any such indication exists, management makes an estimate of the asset's recoverable amount as the higher of the asset's fair value less cost to sell and its value in use. The carrying amount is then written down to recoverable amount, and the difference is shown as expense (impairment loss) in the profit and loss statement.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Last revaluation was carried out as at 31 December 2006 by independent appraisal. Management believes that in 2007 no material changes in fair value of property, plant and equipment occurred. Based on the analysis performed as at 31 December 2007, the Group didn't identify any impairment indicators for property, plant and equipment.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually or more frequently when indicators of impairment exist, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

The expected useful lives are as follows:

Asset group	Useful life
Accounting software packages	2-3
Certificates	3

Investments and other financial assets

Financial instruments carried on the balance sheet include cash and cash equivalents, investments (other than in consolidated subsidiaries and equity method investees), non-hedge derivatives, accounts receivable, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item. The Group classifies financial assets and liabilities into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All purchases and sales are recognized on the settlement date, which is the date that the investment is delivered to or by the Group.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

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

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

Unrealised gains arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Unrealised losses are charged to the fair value reserve to an extent that such reserve exists for the particular investment; any excess is charged to the income statement in the period in which the losses arise. Realised gains and losses on disposal of available-for-sale investments are included in the income statement in the period in which they arise.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedging

Although it's not its current practice, in rare circumstances the Group can use derivative financial instruments such as interest rate and currency swaps to hedge its risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are initially recognized 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 assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of interest rate and currency swap contracts is determined by reference to the market values for similar instruments.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

For the year ended 31 December 2007 the Group did not have any derivatives designated as hedging instruments. Therefore, the gain or loss on a derivative instruments held by the Group was recognized currently in income. The net loss of RR 4,859 thousand related to the change in the fair value of the interest rate and currency swap contract was included in finance income in the statement of operation for the year ended 31 December 2007 (Note 25).

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are valued at the lower of net realisable value or average acquisition cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. If there is an indication that inventories may be impaired (obsolescence or severe wear and tear) an impairment provision is created.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with original maturity of three months or less.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, unless designated as 'at fair value through profit or loss'.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are calculated by discounting the expected future cash flows using the pre-tax rate that reflects their estimated present value taking into account changes due to the passage of time and risks specific to the liability.

Pensions and other post-employment benefit plans

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the income statement.

The Group operates Defined Benefit and Defined Contribution Pension Plans (five year period onward). The defined benefit plans involve post-employment payments based upon one or more factors, such as age, years with the Group, and salary. The liability recognized on the balance sheet in connection with the pension plan is the discounted value of the defined benefit liability less the fair value of the plan assets, including adjustments related to unrecognized actuarial gains and losses.

Liabilities under the defined benefit plans are determined using the projected unit credit actuarial valuation method. The present value of liabilities under the defined benefit plans is determined by discounting the future estimated cash outflows using actuarial method.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Pensions and other post-employment benefit plans (continued)

Other long-term benefits include:

- current/retired employee death benefit
- funeral benefit
- jubilee benefit
- occasional financial aid to retired employees
- one-time retirement bonus

The Group applies a simplified accounting treatment to other long-term benefits. The simplified method consists in that actuarial gains and losses are recognized immediately, and so is the cost of past services.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenue is recognized by type of activity. Revenue is recognized when the services are rendered (work is performed) and is reported in the income statement net of value added tax, discounts and similar mandatory payments.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

The Group has two major types of revenues:

- Network transmission of electricity, and
- Technological connection to electricity grids

The Group charges all its customers (wholesale or retail sellers of the electricity) for actual electricity network transmission traffic based on pre-set per kW tariffs regulated by the St.-Petersburg Tariffs Committee and Leningrad Region Tariffs and Pricing Policy Committee. Technological losses of electricity in transmission through the Group's network include losses at the normal expected level and losses in excess of the normal expected level (Note 22). Revenue for network transmission of electricity is presented net of technological losses at the normal expected level. Technological losses in excess of the normal expected level are included into operating expenses (Note 23).

Technological connection fees are recognised as revenues immediately at the time when access to electrical power is provided (i.e. at the time of connection) as they do not result in the Group's obligation to provide further services to the customers that are consumers of electricity and are separate from network transmission services provided to the sellers of electricity.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Taxes (continued)

Deferred income tax (continued)

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Earnings per share

IAS 33 *Earnings per share*, as revised, requires the application of the “two-class method” to determine earnings applicable to ordinary shareholders, the amount of which is used as a nominator to calculate earnings per ordinary share. The application of the “two-class method” requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Preference shares are treated as voting shares as dividend on them may not be below the dividend paid on ordinary shares. Earnings per share are calculated by dividing profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the period less weighted average number of treasury shares held by the Group.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

2. Basis of Presentation of the Financial Statements (continued)

2.5 Future changes in accounting policies

Standards issued but not yet effective are as follows:

IFRS (IAS) 23 *Borrowing Costs*

A revised IAS 23 *Borrowing Costs* was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 *Service Concession Arrangements*

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no material impact on the Group.

IFRIC 13 *Customer Loyalty Programmes*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no material impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

3. Correction of Errors and Reclassifications

In the course of preparation of the financial statements for 2007, the Group identified errors which related to the historical financial information for the prior periods. The errors related to 2006 and previous years were corrected through the revision of the comparable information for 2006 and adjustments to the balances of assets, liabilities and retained earnings as at 31 December 2005, respectively.

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

3. Correction of Errors and Reclassifications (continued)

The errors relate to income tax expense for 2006 and presentation of the technological losses of electricity in the Group's electricity network.

- a) Income tax expense of RR 567,764 thousand related to the year ended 31 December 2005 was erroneously recorded in the Group's consolidated income statement for the year ended 31 December 2006, including the amount of RR 210,940 thousand that should have been recorded as an income tax expense in 2005 and the amount of RR 356,824 thousand that was accrued twice. As a result, income tax expense for the year ended 31 December 2006 was overstated by RR 567,764 thousand and the income tax payable as at 31 December 2006 was overstated by RR 356,824 thousand (Note 26)
- b) In 2007 management revisited the accounting treatment for technological losses and concluded that the Group erroneously presented technological losses of electricity in transmission at the normal expected level as a part of the operating expenses and did not offset them against revenues. As a result, revenues and operating expenses for the year ended 31 December 2006 were overstated by RR 2,231,043 thousand (Note 22)

The Group reported the effect of correction of errors by adjusting the opening balance of retained earnings for 2006 where errors were attributable to periods prior to 2006; net profit for 2006 to reflect the effect of subsequent recognition of errors committed in 2006, and the effect of correction of errors committed in 2006 as well as the respective consolidated balance sheet, income statement and cash flow statement.

Certain prior year amounts and disclosures have been reclassified to conform to the current year presentation. The reclassifications and other presentation changes made by the Group are as follows:

- c) Expenses of RR 55,596 thousand related to commercial electric metering services for the year ended 31 December 2006 were shown separately from general operating expenses (Note 23)
- d) Expenses of RR 1,538 thousand related to agent services for the year ended 31 December 2006 were shown separately from general operating expenses (Note 23)
- e) Proceeds from disposal of available-for-sale investments of RR 3,947,444 thousand are presented net of expenses related to the disposal of available-for-sale investments of RR 135,989 thousand in the consolidated cash flow statement for the year ended 31 December 2006
- f) Proceeds from borrowings of RR 2,917,029 thousand are presented net of issue cost of RR 12,971 thousand in the consolidated cash flow statement for the year ended 31 December 2006
- g) Coupon interest expense of RR 306,639 thousand is reclassified from financing activities to operating activities in the consolidated cash flow statement for the year ended 31 December 2006
- h) VAT receivable of RR 725,638 thousand net of impairment provision of RR 87,154 thousand, prepayments and advances given to suppliers of RR 210,434 thousand net of impairment provision of RR 42,873 thousand and income tax and other taxes receivable of RR 97,471 thousand previously presented as accounts receivable were reclassified to other current assets in the consolidated balance sheet as at 31 December 2006 (Note 12)
- i) Advances received of RR 1,478,047 thousand previously presented as accounts payable and accrued expenses were reclassified to other current liabilities in the consolidated consolidated balance sheet as at 31 December 2006 (Note 21)
- j) Non-cash settlements for technological connection revenue of RR 64,893 thousand previously presented in adjustments for other non-cash operations were segregated into a separate line in the consolidated cash flow statement for the year ended 31 December 2006

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

3. Correction of Errors and Reclassifications (continued)

Effects of correction of errors and reclassifications on financial statement for the year 2006 are summarized in the table below:

	As previously reported	Correction of errors	Reclassifications	Total adjustments	As Restated	Comment
Consolidated balance sheet as at 31 December 2006						
Accounts receivable	2,079,288	-	(1,033,543)	(1,033,543)	1,045,745	h
Other current assets	2,715	-	1,033,543	1,033,543	1,036,258	h
Account payable and accrued expenses	2,896,704	-	(1,478,047)	(1,478,047)	1,418,657	i
Other current liabilities	-	-	1,478,047	1,478,047	1,478,047	i
Retained earnings as at 31 December 2006	3,012,454	356,824	-	356,824	3,369,278	a
Consolidated Income Statement for the year ended 31 December 2006						
Revenues	10,585,142	(2,231,043)	-	(2,231,043)	8,354,099	
Revenue from network transmission of electricity	8,356,860	(2,231,043)	-	(2,231,043)	6,125,817	b
Operating expenses	(11,445,858)	2,231,043	-	2,231,043	(9,214,815)	
Technological losses of electricity in transmission through the Group's network	(2,596,122)	2,231,043	-	2,231,043	(365,079)	b
Electric metering services	-	-	(55,596)	(55,596)	(55,596)	c
Agency services	-	-	(1,538)	(1,538)	(1,538)	d
Other operating expenses	(205,108)	-	57,134	57,134	(147,974)	c, d
Income tax charge	(673,106)	567,764	-	567,764	(105,342)	a
Profit for the year ended 31 December 2006	(759,063)	567,764	-	567,764	(191,299)	
Retained earnings as at 1 January 2006						
	3,406,895	(210,940)		(210,940)	3,195,955	a
Consolidated Cash Flow Statement for the year ended 31 December 2006						
Net cash generated from operating activities	1,712,295	-	(306,639)	(306,639)	1,405,656	
Non-cash settlements for technological connection revenue	-		(64,893)	(64,893)	(64,893)	j
Adjustments for other non-cash operations	61,609		64,893	64,893	126,502	j
Interest paid	(182,717)	-	(306,639)	(306,639)	(489,356)	g
Net cash used in investment activities	(525,389)	-	-	-	(525,389)	
Proceeds from disposal of available for sale investments	4,083,433	-	(135,989)	(135,989)	3,947,444	e
Expenses related to the disposal	(135,989)	-	135,989	135,989	-	e
Net cash used in financing activities	(649,792)	-	306,639	306,639	(343,153)	
Payment of coupon interests on bonds	(306,639)	-	306,639	306,639	-	g
Borrowings received	2,930,000	-	(12,971)	(12,971)	2,917,029	f
Bank charges	(12,971)	-	12,971	12,971	-	f

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

4. Intangible assets

	Accounting software	Certificates	Total
Cost			
Balance as at 31 December 2006	-	-	-
Additions for the period	130,480	74,465	204,945
Balance as at 31 December 2007	130,480	74,465	204,945
Amortization and impairment			
Balance as at 31 December 2006	-	-	-
Charge for the period	10,650	12,230	22,880
Balance as at 31 December 2007	10,650	12,230	22,880
Net book value			
31 December 2006	-	-	-
31 December 2007	119,830	62,235	182,065

Certificates are acquired for the purposes of conformity with the electricity quality standards. The certificates are valid until 2010.

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Cost						
At 1 January 2006	1,908,933	14,151,473	4,623,747	904,282	1,222,071	22,810,506
Additions	6,275	153,371	65,789	67,997	2,844,821	3,138,253
Disposals	(8,776)	(91,738)	(17,347)	(17,458)	(15,695)	(151,014)
Revaluation	518,034	3,942,802	(650,591)	4,974,205	-	8,784,450
Transfer	439,775	554,143	163,272	(370,018)	(787,172)	-
Balance as at 31 December 2006	2,864,241	18,710,051	4,184,870	5,559,008	3,264,025	34,582,195
Additions	11,966	4,801	1,224,522	12,544	8,649,983	9,903,816
Disposals	(2,669)	(3,789)	(18,876)	(352,446)	(35,680)	(413,460)
Transfer	118,475	1,369,813	1,494,474	860,468	(3,843,230)	-
Balance as at 31 December 2007	2,992,013	20,080,876	6,884,990	6,079,574	8,035,098	44,072,551
Accumulated depreciation						
At 1 January 2006	(637,227)	(7,079,252)	(2,377,210)	(854,062)	(68,000)	(11,015,751)
Charge for the year	(59,382)	(445,763)	(95,318)	(57,487)	-	(657,950)
Disposals	3,059	45,586	9,351	16,391	-	74,387
Revaluation	(203,814)	(2,058,378)	315,816	(4,691,507)	(1,824,139)	(8,462,022)
Transfer	(229,537)	(229,957)	115,903	343,591	-	-
Balance as at 31 December 2006	(1,126,901)	(9,767,764)	(2,031,458)	(5,243,074)	(1,892,139)	(20,061,336)
Charge for the year	(92,455)	(679,637)	(222,647)	(110,085)	-	(1,104,824)
Disposals	1,127	2,078	10,446	332,393	-	346,044
Transfer	4,164	249	353	(4,766)	-	-
Balance as at 31 December 2007	(1,214,065)	(10,445,074)	(2,243,306)	(5,025,532)	(1,892,139)	(20,820,116)
Net book value at 31 December 2006	1,737,340	8,942,287	2,153,412	315,934	1,371,886	14,520,859
Net book value at 31 December 2007	1,777,948	9,635,802	4,641,684	1,054,042	6,142,959	23,252,435

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment (continued)

During 2007 the Group acquired power equipment and cars under financial leases from third party leasing companies. At 31 December 2007 the net carrying amount of the power equipment included in the respective group of property, plant and equipment was RR 1,272,027 thousand (31 December 2006: RR 55,698 thousand), and the net carrying amount of the cars included in Other property, plant and equipment was RR 23,620 thousand (31 December 2006: RR 20,840 thousand). Acquisitions under finance leases of RR 1,232,598 thousand (2006: 78,975 thousand) have been excluded from the cash flow statement, so investing activities in the cash flow statement represent actual cash transactions.

Revaluation

As at 31 December 2007 the Group has not revalued property, plant and equipment and assets under construction as management believes that the net book values approximate the fair value. Management performed impairment tests in accordance with IAS 36 has not identified any impairment indicators.

Property, plant and equipment were revalued to fair value as at 31 December 2006. The revaluation was performed based on the reports of independent appraisers with a recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. Fair values were estimated using appropriate valuation techniques using the following methodology and assumptions:

- An income method was applied, using discounted cash flows projections, which resulted in the total fair value of RR 14,520,859 thousand. This value was then apportioned between the categories of property, plant and equipment pro-rata on the basis of their depreciated replacement cost;
- Assumption on the dynamic of industrial macro-economic indices in the RF, as well as the growth rate of prices for services of natural monopolies was based on "Scenarios of social and economic development of the Russian Federation for year 2007 and up to year 2009 and the marginal levels of prices (tariffs) for products (services) of natural monopolies for year 2007" prepared by the Ministry of Economic Development;
- The following methods of calculation of necessary gross revenues of the Group were applied: up to the year 2009, application of "cost plus" method; from 2010 to 2012 – gradual transition to application of the method of economically reasonable rate on return (ROR); from 2012 and onwards – application of ROR;
- While projecting expenses, the appraiser used the information prepared by the Group management when applying for the tariffs to be set for 2007;
- For the purpose of projecting the amount of working capital, we accepted normalised average industry turnover rates and made an assumption that the company needs three years before its current turnover rates would be consistent with the average industry ones.
- Certain assets for which there is a market were valued at the market value; the total fair value of such assets as at 31 December 2006 was RR 532,000 thousand;

As a result of the revaluation, RR 2,481,342 thousand was credited to the fair value reserve as at 31 December 2006, while RR 2,158,914 thousand was charged to the income statement for 2006 as an impairment loss.

As at 31 December 2007 and 31 December 2006, there were no assets pledged as security for borrowings.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment (continued)

Operating lease

The Group leases municipal land parcels as well as premises and equipment under operating leases. Lease payments are determined based on lease agreements and are due as follows:

	31 December 2007			31 December 2006		
	Land	Buildings	Equipment	Land	Buildings	Equipment
Under 1 year	1,190	91,209	15,194	1,603	102,939	2,713
1 to 5 years	-	23,314	-	-	820	2,022
Over 5 years	11,530	210,352	-	9,101	1,453	-
Total	12,720	324,875	15,194	10,704	105,212	4,735

6. Advances to construction contractors

Advances of RR 3,915,529 thousand paid to construction contractors (31 December 2006: RR 2,259,333 thousand) are stated net of an impairment provision of RR 64,261 thousand (31 December 2006: RR 32,234 thousand). Movements in the provision for impairment of advances to construction are disclosed in Note 13.

7. Available-for-sale investments

	Shareholding, %	31 December 2007	31 December 2006
OJSC Peterburgskie Magistralnye Seti	12.5%	282,656	282,656
OJSC Petersburg Sales Company	12.5%	52,520	52,520
OJSC North-West Energy Management Company	12.5%	49,318	49,318
Total		384,494	384,494

In 2006, the Group management made an adjustment to the carrying value of the available-for-sale investments in OJSC North-West Energy Management Company, OJSC Petersburg Generating Company, OJSC Petersburg Sales Company according to the Group's share of net assets of these entities as of the date of the restructuring, determined on the basis of their Russian statutory accounting reports.

The available-for-sale investment in OJSC Petersburg Transmission Networks, received in March 2006 as a result of the 2005 Group restructuring (Note 2.3) of RR 282,656 thousand was recorded in these consolidated financial statements according to the Group's share of net assets in this entity as at the date of restructuring, determined on the basis of its Russian statutory accounting reports.

In October 2006, the Group sold its shareholding in OJSC Petersburg Generating Company on the basis of a tender. The following table represents the results of disposal.

Sales proceeds	4,083,433
Less: Carrying value of the available-for-sale investment	(2,410,345)
Less: Agency fee	(135,989)
Financial income recorded in the income statement	1,537,099

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

8. Other non-current assets

	31 December 2007	31 December 2006
VAT recoverable after more than 12 months	568,860	380,407
Other non-current assets	7,291	7,431
Total	576,151	387,838

9. Cash and cash equivalents

	31 December 2007	31 December 2006
RR-denominated bank deposits reclaimable on demand	5,000,000	1,000,000
Bank accounts and cash in hand - RR	903,064	82,219
Bank accounts - foreign currency	14	10
Total	5,903,078	1,082,229

As at 31 December 2007 the Group had open deposit agreements with a number of banks and provided that the Group maintains a minimum guaranteed cash balances in a fixed period of time, banks are to accrue interest on this minimum guaranteed balance. Interest receivable as at 31 December 2007 included in financial income comprised RR 9,987 thousand (2006: RR 10,899 thousand).

Current bank accounts do not bear interest.

10. Accounts receivable

	31 December 2007	31 December 2006
Trade receivables net of impairment provision of RR 505,537 thousand (RR 245,235 thousand as at 31 December 2006)	922,589	997,947
Other accounts receivable net of impairment provision of RR 39,331 thousand (2006: nil)	94,904	47,798
Total	1,017,493	1,045,745

Movements in the provision for impairment of accounts receivable are disclosed in Note 13.

Management determined the provision for impairment of receivables based on specific customer solvency, industry-specific payment trends, subsequent receipts and settlements and analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and non-cash settlements, and that therefore the recorded value approximates their fair value.

For trade receivables and other receivables which are neither past due nor impaired at the balance sheet date, no information is available to indicate that the debtors may default on their obligations, as the Group monitors debtors on an ongoing basis and periodically reconciles receivable balances. Trade receivables accrue no interest and are generally repaid within a calendar year.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

10. Accounts receivable (continued)

As at 31 December 2007 and 2006, the ageing analysis of trade receivables is as follows:

	31 December 2007			31 December 2006		
	Total	Neither past due nor impaired	Past due not impaired	Total	Neither past due nor impaired	Past due not impaired
Trade receivables (electricity transmission services)	375,788	375,788	-	114,122	114,122	-
Trade receivables (technological connection services)	250,264	250,264	-	491,556	491,556	-
State exemptions	296,537	-	296,537	392,269	-	392,269
Total trade accounts receivable	922,589	626,052	296,537	997,947	605,678	392,269
Other accounts receivable	94,904	94,904	-	47,798	47,798	-

As at 31 December 2007 and 2006 there are no indications that the debtors will not meet their payment obligations since the Group trades only with recognised, creditworthy third parties. The Group analyzes the ability of debtors to fulfill the payment obligations on a regular basis.

The amounts of past due but not impaired receivables represent compensations due from the state authorities for the exemptions provided by the Group to residents of St.Petersburg and the Leningrad Region in the period from 1 January 2002 to 1 October 2005. In respect of RR 296,537 thousand outstanding as at 31 December 2007 the Group has enforcement orders issued by the arbitration courts. The rest of receivables from the state authorities where the courts are pending was fully impaired.

11. Inventories

	31 December 2007	31 December 2006
Materials	107,064	107,084
Spare parts	62,656	46,111
Uniform	25,550	52,783
Tools	20,288	17,849
Other inventories	2,365	1,725
Total	217,923	225,552

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

12. Other current assets

	31 December 2007	31 December 2006
VAT receivable net of impairment provision of RR 76,953 thousand (RR 87,154 thousand as at 31 December 2006)	1,502,392	725,638
Prepayments and advances given to suppliers net of impairment provision of RR 33,938 thousand (RR 42,873 thousand as at 31 December 2006)	1,298,565	210,434
Income tax and other taxes receivable	16,279	97,471
Other current assets	6,604	2,715
Total	2,823,840	1,036,258

Movements in the provision for impairment of VAT receivable and advances given to suppliers are disclosed in Note 13.

13. Impairment provision for accounts receivable and advances given

Movements of the provision for impairment of receivables were as follows:

	Trade receivables	VAT receivables	Advances to suppliers	Advances to contractors	Other receivables	Total
At 1 January 2006	289,236	-	77,364	391,070	73,559	831,229
Charge for the year	29,215	87,154	-	-	-	116,369
Released	-	-	(34,491)	(358,836)	(45,896)	(439,223)
Utilised	(73,216)	-	-	-	(27,663)	(100,879)
At 31 December 2006	245,235	87,154	42,873	32,234	-	407,496
Charge for the year	260,302	-	-	32,027	39,331	331,660
Released	-	(10,201)	(8,935)	-	-	(19,136)
At 31 December 2007	505,537	76,953	33,938	64,261	39,331	720,020

14. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Ordinary shares	691,854,144	691,854,144	4,631,947	4,631,947
Preference shares	93,264,311	93,264,311	625,603	625,603
Total	785,118,455	785,118,455	5,257,550	5,257,550

Share capital

The par value of both ordinary and preferred shares amounted to RR 1 per share.

There were no transactions with own shares during 2007 and 2006.

Ordinary shares carry voting rights with no guarantee of dividends.

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

14. Equity (continued)

Share capital (continued)

On 23 August 2007 the Group's shareholders authorized a private placement of its additional shares to be issued in the period through 31 December 2008. The Group is going to issue 239,937,573 ordinary shares with a par value of 1 Rouble, at a price of 37.44 Roubles per share. The expected total additional capital to be raised is RR 8,983,263 thousand. Additional shares were partially subscribed to by the City of St. Petersburg and some of the existing shareholders that advanced to the Group RR 3,055,324 thousand in cash. As at 31 December 2007 no additional shares were issued, therefore, the amount of advance contributions received from the above shareholders was included into other accounts payable.

Preference shares

Preference shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization of the Company, changes or amendments to the Articles of Association limiting rights of preference shareholders, changes to dividend levels of preference shares, or the issuance of additional preference stock. Such resolutions require 75% approval of both preference and ordinary shareholders.

Preference shareholders have the right to participate in general shareholders' meetings and vote on all issues within the competence of general shareholders' meetings following the annual general meeting at which, for whatever reason, a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividend on such shares.

Preference shares carry no rights of redemption or conversion.

Preference shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by the number of preference shares and the dividends paid on one ordinary share. Dividends on the preference shares are non-cumulative.

In case of liquidation, the assets remaining after settlement with creditors, payment of preference dividends and redemption of the par value of preference shares is distributed among preference and ordinary shareholders proportionately to the number of shares owned.

Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 27).

Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as at 31 December 2007 amounted to RR 916,067 thousand (as at 31 December 2006: RR 423,970 thousand).

Dividend declared and paid

In 2007, dividends for the year ended 31 December 2006 were declared in the amount of RR 0.4545898 per preference shares (nil per ordinary shares). The total amount of dividends accrued in 2007 for the year ended 31 December 2006 was RR 42,397 thousand. In 2008, dividends for the year ended 31 December 2007 were declared in the amount of RR 0.9822265 per preference share (nil per ordinary shares). The total amount of dividends declared in 2008 for the year ended 31 December 2007 was RR 91,607 thousand.

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

14. Equity (continued)

Fair value reserve

The fair value reserve as at 31 December 2007 related to property, plant and equipment and assets under construction was RR 2,462,747 thousand (31 December 2006: RR 2,481,342 thousand). The reserve was reduced by the amount of deferred tax liability which at 31 December 2007 was RR 591,059 thousand (31 December 2006: RR 595,522 thousand). In 2007, the provision was adjusted to the amount of revaluation attributable to property, plant and equipment and assets under construction disposed of in 2007. Accordingly, the fair value reserve as at 31 December 2007 was RR 1,871,688 thousand (31 December 2006: RR 1,885,820 thousand).

15. Long-term borrowings

	Currency	Effective interest rate	Maturity date	31 December 2007	31 December 2006
Bonds issued by the Group					
series 01	RR	10.25%	2007	-	2,999,801
series 02	RR	8.54%	2012	2,977,119	-
series 03	RR	8.02%	2012	2,977,144	-
Long term bank loans	USD	Libor + 1.25%	2010	4,847,536	-
Finance lease liabilities	RR	29.69%	2011	1,031,072	74,293
Total long-term debt				11,832,871	3,074,094
Less: current portion				(277,007)	(3,023,310)
Long-term debt, net of current portion				11,555,864	50,784

Loans

The long term currency-denominated bank loan is stated at the USD/RR exchange rate at 31 December 2007. The Group's management has entered into an interest/currency swap agreement in connection with the long term loan, whereby the loan is converted into Russian roubles, and the interest is payable at a fixed interest rate of 8.42%. The Group did not designate the above interest rate and currency swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial liability at fair value through profit and loss amounted to RR 9,240 thousand. Fair value of the derivative is calculated by discounting of future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The net loss of RR 4,859 thousand related to the change in the fair value of the interest rate and currency swap contract was included in the finance expense in the income statement for the year ended 31 December 2007.

The Group has to comply with certain conditions, including maintenance of certain financial performance standards.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

15. Long-term borrowings (continued)

Loans (continued)

Under the syndicated loan agreement with Barclay's Bank the Group has to maintain the following financial performance ratios (computed based on IFRS financial statements for each period):

- Net debt to EBITDA ratio – maximum 4:1 for the first year of the loan (from 12 December 2007 to 12 December 2008), 3:1 for the rest of the loan period (from 13 December 2008 to maturity date);
- EBITDA to net interest ratio – minimum 4:1;
- Material assets to the total assets ratio – minimum 0.6;
- No pledges of any assets;
- Assets sales or lease maximum 5 million US Dollars if not in a usual course of business or under the Restructuring approved by the Bank;
- Total debt – maximum 40 million US Dollars (except for this loan and the existing debts at the moment of the loan issuance);
- Restructuring of the Group if not approved by the Bank;
- Acquisition or establishment of another company without the Bank's approval;
- Dividends for a year < 100% of net profit for the year under the Russian Accounting Standards;
- Repurchase of own shares (if not required by law or a court order);
- Overdue payments (if not a technical error or if not repaid in 3 days);
- Audited consolidated financial statements for the year ended 31 December 2006 – on or earlier than 10 January 2008;
- Audited consolidated financial statements under the Russian Accounting Standards for the year ended 31 December 2007 – on or earlier than 27 September 2008;
- Audited consolidated financial statements under the Russian Accounting Standards for the years ending after 31 December 2007 – on or earlier than 28 June of the next year;
- Un-audited quarterly consolidated financial statements – on or earlier than on the 90th day after the preceding quarter-end;
- Un-audited consolidated financial statements under Russian Accounting Standards, forwarded to the tax authorities, – on or earlier the 90th day after the preceding year end.

As at 31 December 2007 and for the year then ended the Group complied with all of the above restrictions and covenants.

Bonds

During 2007 the Group had outstanding 1st, 2nd and 3rd issue bonds.

The 1st issue bonds carried 6 coupons of which 5 were repaid as at 31 December 2006. In 2007 the Group fully met its coupon obligations under the 6th coupon at 10.25% p.a. in the total amount of RR 153,320 thousand. As at 31 December 2007 the 1st bond issue was fully repaid.

In February 2007 the Group registered the issue of 3,000,000 certified coupon bonds with par value of 1,000 Roubles each carrying 10 interest bearing coupons. Payments under the first coupon are due on the 181st day from the date of bond placement, and other coupon payments are effected every 184 day. The interest rate under coupons is set at 8.54% p.a. The bonds mature in February 2012, in 1820 days from the date of placement with no option for early redemption. In 2007 the Group fully met its coupon obligations under the 1st coupon at 8.54% p.a. in the total amount of RR 127,749 thousand. Coupon payment per bond was 42.58 Roubles. As at 31 December 2007 the outstanding amount of the 2nd issue bonds of RR 2,977,119 thousand was classified as long-term debt.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

15. Long-term borrowings (continued)

Bonds (continued)

In April 2007 the Group registered the 3rd issue of 3,000,000 certified coupon bonds with par value of 1,000 Roubles each carrying 10 interest bearing coupons. Payments under the first coupon are due on the 181st day from the date of bond placement, and other coupon payments are effected every 184 day. The interest rate under coupons is set at 8.02% p.a. The bonds mature in April 2012, in 1820 days from the date of placement with no option for early redemption. In 2007 the Group fully met its coupon obligations under the 1st coupon at 8.02% p.a. in the total amount of RR 119,970 thousand. Coupon payment per bond was 39.99 Roubles. As at 31 December 2007 the outstanding amount of the 3rd issue bonds of RR 2,977,144 thousand was classified as long-term debt.

16. Post-employment benefit liabilities

The Group makes payments to the Government pension fund for its employees. Such contributions are included in the unified social tax ("UST") calculated by the Group using regressive scale and are charged to expense when incurred during the employee's service period. Total contributions for UST amounted to RR 360,201 thousand during the year ended 31 December 2007 (2006: RR 255,811 thousand).

In additions to mandatory payments to the Russian Federation state pension scheme, the Group provides non-government pensions to its employees through post-employment benefits plan.

The majority of employees are eligible for defined benefit plan which provides old age retirement pension. The plans provide for payment of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men. The amount of payments is calculated using the formula according to which the amount of benefit depends on a number of parameters, including an employee's salary at the retirement date and number of years with the Group.

Non-government pension fund Electroenergetiki, which is related to the Group (Note 28), maintains the above defined benefit pension plan.

The Group further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon retirement, lump-sum payments upon death, jubilees benefits.

As at 31 December 2007 there were 5,531 working employees participating to the defined benefit plan of the Group and 1,421 pensioners (31 December 2006: 5,250 and 1,549 respectively).

For the purpose of presentation, lump-sum benefits at retirement, pension benefits and funeral compensations are classified as 'post-employment benefits'; jubilee benefits and funeral compensations in the case of a relative's death are classified as 'long-term employee benefits'.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

16. Post-employment benefit liabilities (continued)

As at 31 December 2007 and 2006 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2007	Long-term		2006	Long-term
	Post	employee		Post	employee
	employment	benefits	TOTAL	employment	benefits
	benefits	benefits	TOTAL	benefits	benefits
Present value of defined benefit obligation	(296,924)	(230,627)	(249,891)	(195,946)	(53,945)
Fair value of plan assets	-	-	-	-	-
Unrecognized net actuarial losses	4,802	4,802	5,327	5,327	-
Unrecognized past service cost	14,709	14,709	-	-	-
Net pension liability in the balance sheet	(277,413)	(211,116)	(244,564)	(190,619)	(53,945)

Changes in the present value of defined benefit obligations in 2007 and 2006 were as follows:

	2007	Long-term		2006	Long-term
	Post	employee		Post	employee
	employment	benefits	TOTAL	employment	benefits
	benefits	benefits	TOTAL	benefits	benefits
Net defined benefit obligation as at 1 January	249,891	195,946	229,255	182,607	46,648
Interest cost on benefit obligation	16,867	13,226	15,475	12,326	3,149
Current service cost	12,718	7,040	10,849	6,666	4,183
Past service cost (recognized and unrecognized)	34,011	26,507	-	-	-
Benefits paid	(19,483)	(11,568)	(17,196)	(10,980)	(6,216)
Actuarial (gains)/losses on obligation	2,920	(524)	11,508	5,327	6,181
Net defined benefit obligation as at 31 December	296,924	230,627	249,891	195,946	53,945

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

16. Post-employment benefit liabilities (continued)

The movements in the net pension liability in 2007 and 2006 were as follows:

	2007			2006		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Net pension liability as at 1 January	244,564	190,619	53,945	229,255	182,607	46,648
Net benefit expense	52,333	32,064	20,269	32,505	18,992	13,513
Contributions	(19,484)	(11,567)	(7,917)	(17,196)	(10,980)	(6,216)
Net pension liability as at 31 December	277,413	211,116	66,297	244,564	190,619	53,945

Net expense under the defined benefit plans in 2007 and 2006 was as follows:

	2007			2006		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Current service cost	12,718	7,040	5,678	10,849	6,666	4,183
Interest cost	16,867	13,226	3,641	15,475	12,326	3,149
Expected return on plan assets	-	-	-	-	-	-
Net actuarial loss recognized in the period	3,446	-	3,446	6,181	-	6,181
Recognized past service cost	19,302	11,798	7,504	-	-	-
Net expense for the defined benefit plan	52,333	32,064	20,269	32,505	18,992	13,513

Expenses on the defined benefit plans were included in Payroll and payroll taxes in the consolidated income statement.

As at 31 December the principal actuarial assumptions of defined benefit pension plan were as follows:

	2007	2006
Discount rate (actuarial rate of return), %	6.75	6.75
Estimated future salary increases, %	7	7
Estimated future rate of inflation, %	6	5

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

17. Other non-current liabilities

	31 December 2007	31 December 2006
Long-term advances received	3,586,430	2,072,687
Trade accounts payable	113,537	92,369
Total	3,699,967	2,165,056

18. Short-term borrowings

Bank	Interest rate	31 December 2007	31 December 2006
OAO Alfa Bank	7.5%, 7.75%	-	1,500,000
Current portion of long-term borrowings	10.25%	-	2,999,801
Current portion of long-term finance lease liabilities	26.47	277,007	23,509
Total		277,007	4,523,310

All short-term borrowings are denominated in RR.

19. Accounts payable and accrued expenses

	31 December 2007	31 December 2006
Trade accounts payable	2,547,313	1,199,909
Interest accrued on bank loans and coupon bonds	166,141	64,640
Salaries payable	138,642	101,417
Accruals	84,954	13,238
Other	97,838	39,453
Total	3,034,888	1,418,657

20. Other taxes payable

	31 December 2007	31 December 2006
Payroll taxes	37,070	49,844
Assets tax	27,667	13,581
Personal income tax	33,058	14,632
Value added tax	-	109,875
Other taxes	4,805	4,274
Total	102,600	192,206

21. Other current liabilities

	31 December 2007	31 December 2006
Advances received	3,923,948	1,478,047
Advance contributions for future share issue (Note 14)	3,055,324	-
Total	6,979,272	1,478,047

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

22. Revenue

	<u>2007</u>	<u>2006</u>
Network transmission of electricity	11,605,858	8,356,860
Technological losses at the normal expected level	(2,997,996)	(2,231,043)
Network transmission of electricity, net of normal (expected) losses	8,607,862	6,125,817
Technological connection to electricity grids	3,493,550	1,996,764
Other revenue	236,468	231,518
Total	12,337,880	8,354,099

Technological connection fees of RR 710,450 thousand (2006: RR 64,893 thousand) were settled by contribution of property, plant and equipment items from the customers.

In 2007 electricity transmission revenue from OJSC PSC and OJSC RKS-Energo (related parties) amounted to RR 6,214,889 thousand (2006: RR 4,836,465 thousand) and RR 1,528,527 thousand (2006: RR 715,369 thousand), respectively.

23. Operating expenses

	<u>2007</u>	<u>2006</u>
Transmission fee	3,679,415	3,290,860
Payroll and payroll taxes	2,078,609	1,548,788
Depreciation (Note 5)	1,104,824	657,950
Repairs and maintenance	599,250	470,807
Electric metering services	341,717	55,596
Rent	324,728	128,014
Provision for impairment of receivables (release of provision) (Note 13)	312,524	(322,854)
Telecommunication and information services	186,959	164,093
Raw materials and supplies	171,258	108,470
Social expenses	165,951	149,991
Consulting, legal and audit services	139,751	85,162
Taxes other than income tax	103,472	60,315
Internal security costs	99,012	81,407
Agency services	89,211	1,538
Provision for impairment of inventories	54,427	62,711
Technological losses of electricity in transmission through own network in excess of the normal expected level	25,659	365,079
Amortisation (Note 4)	22,880	-
Property, plant and equipment impairment loss	-	2,158,914
Other operating expenses	536,445	147,974
Total	10,036,092	9,214,815

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

24. Finance income

	2007	2006
Interest receivable	60,717	17,834
Dividends received (Note 29)	45,188	16,960
Other finance income	3,393	22,557
Gain on sale of a company (JSC Petersburg Generating Company)	-	1,537,099
Total	109,298	1,594,450

25. Finance expenses

	2007	2006
Interest expense on bonds	493,267	307,482
Interest payable	80,297	186,468
Net effect of change in the value of interest rate and currency swaps	4,859	-
Impairment of available-for-sale investments	-	312,730
Other finance expenses	24,899	13,011
Total	603,322	819,691

26. Income tax

During the year ended 31 December 2007 the Group was subject to income tax rate of 24% on taxable profits.

	2007	2006 (restated)	2006
Current tax expense	656,443	586,156	1,153,920
Deferred tax expense	(133,898)	(480,814)	(480,814)
Income tax expense	522,545	105,342	673,106

The reconciliation of the theoretical amount that would arise using the Russian statutory rate of 24% to the total actual income tax was as follows for the years ending 31 December 2007 and 2006:

	2007	2006 (restated)	2006
Profit/ (loss) before tax	1,807,764	(85,957)	(85,957)
Income tax at statutory rate of 24%	433,863	(20,630)	(20,630)
Add the effect of:			
Available-for-sale investments received free of charge	-	67,837	67,837
Tax charge upon reduction of bad debt provision for tax purposes as a result of the Group restructuring in 2005	-	-	567,764
Non-deductible expenses	88,682	58,135	58,135
Total income tax expense	522,545	105,342	673,106

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

26. Income tax (continued)

The components of net deferred tax assets and liabilities at 31 December 2007 and 2006, and the respective movements during 2007 and 2006, were as follows:

	31 December 2006	Movements during 2007, recognized in the income statement	31 December 2007
Property, plant and equipment	216,589	356,498	573,087
Other assets	(57,508)	(210,039)	(267,547)
Liabilities	(33,584)	(280,357)	(313,941)
Total	125,497	(133,898)	(8,401)

	31 December 2005	Movements during 2006, recognized in the income statement	Movements during 2006, recognized within equity	31 December 2006
Property, plant and equipment	14,147	(393,080)	595,522	216,589
Other assets	40,150	(97,658)	-	(57,508)
Liabilities	(43,508)	9,924	-	(33,584)
Total	10,789	(480,814)	595,522	125,497

27. Earnings per share

	31 December 2007	31 December 2006
Weighted average number of outstanding ordinary shares (thousands)	691,854	691,854
Weighted average number of outstanding preference shares (thousands)	93,264	93,264
Dividends paid to holders of ordinary shares	-	-
Dividends paid to holders of preference shares	42,397	-
Total dividends paid	42,397	-
Total income/(loss) less dividends paid	1,242,822	(191,299)
- attributable to holders of ordinary shares	1,095,187	(168,575)
- attributable to holders of preference shares	147,635	(22,724)
Total income/(loss) attributable to holders of ordinary shares	1,095,187	(168,575)
Total income/(loss) attributable to holders of preference shares	147,635	(22,724)
Earnings/(loss) per ordinary share – basic and diluted (RR)	1.58	(0.24)
Earnings/(loss) per preference share – basic and diluted (RR)	1.58	(0.24)

28. Commitments

Commitments to purchase property, plant and equipment

Future capital expenditures for which contracts have been signed amounted to RR 10,129,126 thousand as at 31 December 2007 (31 December 2006: RR 8,988,941 thousand).

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Commitments (continued)

Finance lease commitments

As at 31 December 2007 the Group entered into lease agreements for electricity transmission equipment and transport vehicles which has not been delivered to the Group by the reporting date and, therefore, is not recognized in these consolidated financial statements. Future minimum lease payments under finance lease are as follows:

	During next year	During 2-5 years	Over 5 years	Total
31 December 2007				
Future minimal lease payments	556,989	1,089,886	-	1,646,875
Less: future interest expenses	(279,982)	(335,821)	-	(615,803)
Present value of future minimal lease payments	277,007	754,065	-	1,031,072
31 December 2006				
Future minimal lease payments	42,515	65,777	-	108,292
Less: future interest expenses	(19,006)	(14,993)	-	(33,999)
Present value of future minimal lease payments	23,509	50,784	-	74,293

All lease agreements are fully secured against the Group's assets and not in pledge.

The Group had entered into a number of finance leases under which equipment was not received at 31 December 2007. Accordingly, the liabilities arising from the above financial leases are not reported in these financial statements. The present value of future minimal lease payments under these agreements at 31 December 2007 will be RR 4,365,565 thousand (31 December 2006: RR 671,988 thousand). Future interest expense will amount to RR 239,507 thousand (31 December 2006: RR 342,896 thousand). At 31 December 2007 the Group paid advances of RR 436,339 thousand under these leases (31 December 2006: RR 25,649 thousand).

As at 31 December 2007 the Group provided the following guarantees for the loans granted by OJSC Bank VTB Severo-Zapad to the Group's lessor (CJSC Rosgazleasing):

Guarantee	Underlying loan agreement	Maturity date	Amount of loan guaranteed
CJSC Rosgazleasing	#107/07 dated 22 August 2007	22 August 2012	81,770
CJSC Rosgazleasing	#108/07 dated 22 August 2007	22 August 2012	322,540

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees involved in production. In particular, the Group participates in the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates. All expenditures in connection with social commitments are expensed when incurred.

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments in Russia.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Commitments (continued)

Operating environment of the Group

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently. Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Group's management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

At 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Since the tax and other legislation does not fully cover all aspects of the Group restructuring, certain legal and tax risks might still arise.

In April 2008 the tax authorities performed a tax field audit of the Group covering the period from 1 January 2005 to 31 December 2006. As the result the tax authorities additionally accrued RR 1,349,999 thousand of taxes, RR 161,361 thousand of penalties and RR 300,061 thousand of late payment interests. The Group did not agree with the decision and filed a complaint to the Arbitration court.

The Group has accrued RR 1,236,989 thousand of the above-mentioned additional taxes in these financial statements. The Group believes that the tax authority had no legal grounds to charge RR 113,010 thousand of additional taxes, RR 161,361 thousand of penalties and RR 300,061 thousand of late payment interests. Thus, as at 31 December 2007 the Group did not accrue provision for contingent liability related to the income tax and other taxes of RR 113,010 thousand, late payment interests of RR 300,061 thousand and penalties of RR 161,361 thousand.

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Commitments (continued)

Insurance

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

Legal proceedings

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

29. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence 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.

The Group had significant balances outstanding at 31 December 2007 or entered into significant transactions during the year then ended with the following related parties.

Parent company

The outstanding balances with RAO UES were as follows:

	31 December 2007	31 December 2006
Advances paid net of impairment provision of RR 473 thousand	-	2,173
Trade account payable	49,041	-

Other related parties

Other related parties include entities under RAO UES control. Significant transactions with other related parties and balances outstanding are as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue from electricity transit (OJSC PSC)	9,212,886	7,067,508
Purchase of compensation electricity in the amount of losses (OJSC PSC)	(3,023,655)	(2,596,122)
Cost of electricity transmission through the federal grid (OJSC FSK UES)	(2,333,191)	(2,065,683)

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

29. Related party transactions (continued)

Other related parties (continued)

	31 December 2007	31 December 2006
<i>Accounts receivable, including:</i>		
Trade receivables:	160,754	5,239
OJSC Petersburg Sales Company (OJSC PSC)	160,208	38
Others	546	5,201
Advances given	301,949	23,464
OJSC FSK UES	180,258	20,683
OJSC Petersburg Sales Company (OJSC PSC)	61,287	-
NPF Electroenergetiki	55,579	-
Others	4,825	2,781
<i>Accounts payable, including:</i>		
Trade payables	37,916	57,087
OJSC Petersburg Sales Company (OJSC PSC)	19,257	18,252
OJSC FSK UES	6,561	-
OJSC TGK-1	6,437	15,900
OJSC CPRP-Energoservice	4,372	22,651
Others	1,289	284
Advances received	3,350	77,388
Available-for-sale investments	384,494	384,494
OJSC Petersburg Generating Company	282,656	282,656
OJSC North-West Energy Management Company	52,520	52,520
OJSC Petersburg Sales Company	49,318	49,318
Dividends received	45,188	16,960
OJSC Petersburg Generating Company	37,562	-
OJSC North-West Energy Management Company	7,413	-
OJSC Petersburg Sales Company	213	-
JSC Peterburg Generating Company	-	16,960

State-controlled entities

In the course of its operating activities the Group is engaged in transactions with other state-controlled entities apart from RAO UES and its subsidiaries. The Group had the following material transactions with state-controlled entities:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue from electricity transit	2,227,120	1,158,488
Revenue from technological connections	628,445	321,125
Cost of electricity transmission through other distribution grids	(272,111)	(1,214,531)
Rent	-	(12,580)

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

29. Related party transactions (continued)

State-controlled entities (continued)

The Group had the following material balances arising from transactions with state-controlled entities:

	31 December 2007	31 December 2006
<i>Accounts receivable net of impairment provision</i>		
Trade accounts receivable	219,206	592,403
Other accounts receivable	75,070	3,614
Advances paid	6,698	225,920
<i>Accounts payable, including</i>		
Long-term trade accounts payable	132,028	132,028
Advances received	314,852	363,353
Short-term trade accounts payable	39,702	298,233
Other accounts payable	13,038	7,777

As at 31 December 2007 the Group had the following cash balances on current accounts with state-controlled banks:

	31 December 2007	31 December 2006
Northwest bank of Sberbank	273,803	36,988
Vneshtorgbank	190,256	41
PromStroyBank	-	32,485
Total	464,059	69,514

Compensation to key management personnel

Key management personnel comprise general director of the Company and his deputies, including Finance Director and Chief Accountant, as well as members of the Board of Directors. Total compensation to key management personnel, all of which are represented by short-term and long-term employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement amounted to RR 88,371 thousand for the year ended 31 December 2007 (for the year ended 31 December 2006: RR 64,071 thousand).

30. Segment information

The Group operates in one industry segment, being the provision of electricity transmission services to domestic customers in one geographic area, i.e. St. Petersburg and Leningrad region. The results of this segment and assets and liabilities as at 31 December 2007 and 2006 are presented in the consolidated income statements and the consolidated balance sheets, respectively.

An analysis of revenue by service type is disclosed in Note 22.

All of the Group's assets are located within the territory of St. Petersburg and Leningrad Region.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (Note 29), that accounted for greater than 10% of its revenue during the years ended 31 December 2007 and 2006.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

31. Financial instruments

The Group's principal financial liabilities, apart from derivatives, comprise bank loans and overdrafts, bonds, finance leases, trade payables and loans given. The main purpose of these instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short term deposits which arise directly from its operations.

In addition, during the year the Group has entered into a transaction involving a derivative instrument, namely, a currency/interest rate swap, with a view to manage interest rate and foreign exchange risks arising from the Group's operations and sources of capital. It is, and has been throughout 2007 and 2006 the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are foreign exchange risk, credit risk, liquidity risk and interest rate risk.

Foreign exchange risk

The Group operates within the Russian Federation. The majority of the Group's purchases and borrowings are denominated in Russian Roubles. Therefore, the Group is not exposed to material risks related to foreign exchange rate movements.

Interest rate risk

Interest rate risk mainly relates to long-term debt instruments with fixed interest rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 10.

The Group's revenue from two largest customers OJSC PSC and OJSC RKS-Energo (Note 29) amounts to RR 6,214,889 thousand and RR 1,528,527 thousand, respectively, comprising 67% of the total revenue before the technological losses.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

31. Financial instruments (continued)

Credit risk (continued)

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments, loans given and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments:

Year ended 31 December 2007	1 year	2 years	3-5 years	Over 5 years
Bonds issued	-	-	6,000,000	-
Interest on bonds issued	150,429	-	-	-
Interest-bearing loans	1,800	-	4,847,536	-
Currency swaps	15,712	-	-	-
Trade and other accounts payable	5,698,089	1,800	71,428	123,024
Other financial obligations	556,989	465,219	624,667	-
Total	6,423,019	467,019	11,543,631	123,024

Year ended 31 December 2006	1 year	2 years	3-5 years	Over 5 years
Bonds issued	3,000,000	-	-	-
Interest on bonds issued	-	-	-	-
Interest-bearing loans	1,500,000	-	-	-
Currency swaps	-	-	-	-
Trade and other accounts payable	3,896,704	-	183,130	-
Other financial obligations	42,515	37,714	28,063	-
Total	8,439,219	37,714	211,193	-

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

31. Financial instruments (continued)

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	5,903,078	5,903,078	1,082,229	1,082,229
Available-for-sale investments	384,494	384,494	384,494	384,494
Accounts receivable	1,024,783	1,024,783	1,053,176	1,053,176
Derivative financial instruments	4,323	4,323	-	-
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under finance leases	(1,031,072)	(1,031,072)	(74,293)	(74,293)
Floating rate borrowings	(4,847,536)	(4,847,536)	-	-
Long-term fixed rate borrowings	(5,954,263)	(5,897,698)	-	-
Short-term fixed rate borrowings	(166,141)	(166,141)	(4,564,441)	(4,577,940)

The fair value of derivatives and borrowings with floating rate has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

32. Events after the balance sheet date

In April 2008, following the Board of Directors' decision (minutes No 21 of 11 April 2008), OJSC Lenenergo took corporate measures to prepare the issue and circulation outside the Russian Federation of the Group's Global Depositary Receipts (GDRs).

On 14 April 2008, in accordance with the decision to change and amend the USD 200 million loan agreement of 13 December 2007, a syndicate of OJSC Lenenergo lender banks was established. The syndicate comprises 7 foreign banks which have provided loans to the Group.

On 30 May 2008 the annual shareholders' meeting of OJSC Lenenergo was held which took a decision to distribute profits for 2007 and pay dividend for 2007 of RR 91,607 thousand. Dividend will be paid only on preference shares of the Group.