

**Open joint stock company Lenenergo**

Consolidated financial statements  
prepared in accordance with  
International Financial Reporting Standards

*For the year ended 31 December 2011*

Open joint stock company Lenenergo

Consolidated financial statements

For the year ended 31 December 2011

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## **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 subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the financial statements***

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

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLC*

10 April 2012  
St. Petersburg, Russia

OJSC LENENERGO

Consolidated statement of financial position  
as at 31 December 2011

(in thousands of Russian Rubles)

	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3	714,589	601,184
Property, plant and equipment	4	82,518,717	83,621,575
Advances for construction of property, plant and equipment	5	854,343	2,317,079
Available-for-sale investments		26,700	30,000
Other non-current assets	6	843,179	440,430
<b>Total non-current assets</b>		<b>84,957,528</b>	<b>87,010,268</b>
<b>Current assets</b>			
Cash and cash equivalents	7	7,108,538	653,068
Accounts receivable	8	991,044	1,493,998
Inventories	9	289,605	452,779
Income tax prepayments		100,458	15,539
Other current assets	10	3,503,848	3,756,692
<b>Total current assets</b>		<b>11,993,493</b>	<b>6,372,076</b>
<b>TOTAL ASSETS</b>		<b>96,951,021</b>	<b>93,382,344</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Ordinary shares	12	4,866,115	4,866,115
Preference shares	12	625,603	625,603
Share premium		5,548,880	5,548,880
Other reserves	12	22,347,822	28,659,394
Retained earnings		9,115,941	10,237,449
		<b>42,504,361</b>	<b>49,937,441</b>
<b>Non-controlling interest</b>		<b>30,777</b>	<b>23,542</b>
<b>Total equity</b>		<b>42,535,138</b>	<b>49,960,983</b>
<b>Non-current liabilities</b>			
Long-term borrowings, net of current portion	13	21,028,081	14,124,851
Deferred tax liabilities	21	3,058,696	5,331,912
Post-employment benefits liabilities	14	410,041	351,312
Other non-current liabilities	15	4,884,306	2,115,966
<b>Total non-current liabilities</b>		<b>29,381,124</b>	<b>21,924,041</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	13	6,356,164	1,566,041
Trade and other payables	16	7,287,619	4,216,838
Provisions	17	121,771	37,196
Income tax payable		8,889	102,134
Advances received from customers		11,260,316	15,575,111
<b>Total current liabilities</b>		<b>25,034,759</b>	<b>21,497,320</b>
<b>Total liabilities</b>		<b>54,415,883</b>	<b>43,421,361</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>96,951,021</b>	<b>93,382,344</b>

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

10 April 2012

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

# OJSC LENENERGO

## Consolidated income statement for the year ended 31 December 2011

*(in thousands of Russian Rubles, except per share amounts)*

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Revenues	18	32,256,795	28,573,575
Operating expenses	19	<u>(31,503,143)</u>	<u>(21,440,791)</u>
<b>Operating profit</b>		<b>753,652</b>	<b>7,132,784</b>
Finance income	20	61,484	774,127
Finance cost	21	<u>(1,659,844)</u>	<u>(1,579,556)</u>
Foreign exchange loss		-	(70,141)
<b>(Loss)/profit before tax</b>		<b>(844,708)</b>	<b>6,257,214</b>
Income tax expense	22	<u>(98,568)</u>	<u>(1,506,793)</u>
<b>Net (loss)/profit for the year</b>		<b><u>(943,276)</u></b>	<b><u>4,750,421</u></b>
Attributed to:			
Equity holders		(950,511)	4,746,691
Non-controlling interest		7,235	3,730
 (Loss)/earnings per ordinary share – basic and diluted (Russian Rubles)	 23	 (0.93)	 4.66
(Loss)/earnings per preference share – basic and diluted (Russian Rubles)	23	(0.93)	4.66

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

10 April 2012

**OJSC LENENERGO**  
**Consolidated statement of comprehensive income**  
**for the year ended 31 December 2011**  
*(in thousands of Russian Rubles)*

	Note	Year ended 31 December 2011	Year ended 31 December 2010
<b>Net (loss)/profit</b>		<b>(943,276)</b>	4,750,421
<b>Other comprehensive (loss)/ income</b>			
<b>Property, plant and equipment</b>			
Impairment loss	4	(7,623,835)	-
Income tax effect		1,524,767	-
		<b>(6,099,068)</b>	-
<b>Available-for-sale investments</b>			
Unrealized (loss)/gain		(3,300)	161,207
Income tax effect		660	(32,241)
		<b>(2,640)</b>	128,966
Reclassification of unrealized gain reserve on available-for-sale financial assets to income statement		-	(532,866)
Income tax effect		-	106,573
		-	(426,293)
<b>Other comprehensive loss, net of tax</b>		<b>(6,101,708)</b>	(297,327)
<b>Total comprehensive loss, net of tax</b>		<b>(7,044,984)</b>	4,453,094
Attributed to:			
Equity holders		(7,052,219)	4,449,364
Non-controlling interest		7,235	3,730

General Director

Chief Accountant

10 April 2012



A.V.Sorochinsky

G.V.Kuznetsova

# OJSC LENENERGO

## Consolidated statement of changes in equity for the year ended 31 December 2011

*(in thousands of Russian Rubles)*

	Attributable to equity holders of the parent					Total	Non-controlling interest	Total equity
	Ordinary shares	Preference shares	Share premium	Other reserves (Note 12)	Retained earnings			
<b>As at 1 January 2010</b>	<b>4,866,115</b>	<b>625,603</b>	<b>5,548,880</b>	<b>29,003,426</b>	<b>5,769,857</b>	<b>45,813,881</b>	<b>19,812</b>	<b>45,833,693</b>
Profit for the period	–	–	–	–	4,746,691	4,746,691	3,730	4,750,421
Other comprehensive loss, net of tax	–	–	–	(297,327)	–	(297,327)	–	(297,327)
Total comprehensive income	–	–	–	(297,327)	4,746,691	4,449,364	3,730	4,453,094
Release of asset revaluation reserve on disposed property plant and equipment items, net of tax	–	–	–	(46,705)	46,705	–	–	–
Dividends for 2009	–	–	–	–	(325,804)	(325,804)	–	(325,804)
<b>As at 31 December 2010</b>	<b>4,866,115</b>	<b>625,603</b>	<b>5,548,880</b>	<b>28,659,394</b>	<b>10,237,449</b>	<b>49,937,441</b>	<b>23,542</b>	<b>49,960,983</b>
Loss for the period	–	–	–	–	(950,511)	(950,511)	7,235	(943,276)
Other comprehensive loss, net of tax	–	–	–	(6,101,708)	–	(6,101,708)	–	(6,101,708)
Total comprehensive income	–	–	–	(6,101,708)	(950,511)	(7,052,219)	7,235	(7,044,984)
Release of asset revaluation reserve on disposed property plant and equipment items, net of tax	–	–	–	(209,864)	209,864	–	–	–
Dividends for 2010	–	–	–	–	(380,861)	(380,861)	–	(380,861)
<b>As at 31 December 2011</b>	<b>4,866,115</b>	<b>625,603</b>	<b>5,548,880</b>	<b>22,347,822</b>	<b>9,115,941</b>	<b>42,504,361</b>	<b>30,777</b>	<b>42,535,138</b>

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

10 April 2012



**OJSC LENENERGO**  
**Consolidated statement of cash flows**  
**for the year ended 31 December 2011**  
*(in thousands of Russian Rubles)*

	Note	Year ended 31 December 2011	Year ended 31 December 2010
<b>Cash flows from operating activities</b>			
(Loss)/ profit before tax		(844,708)	6,257,214
Adjustments to reconcile (loss)/profit before tax and net cash flow from operating activities:			
Loss on disposal of property, plant and equipment and intangible assets		360,781	204,429
Finance income	20	(61,484)	(774,127)
Depreciation of property, plant and equipment	4, 19	4,812,663	4,430,867
Amortization of intangible assets	3, 19	114,747	117,487
Impairment loss on property, plant and equipment		4,255,798	-
Impairment of intangible asset	3, 19	148,440	37,360
Foreign exchange loss		-	70,141
Finance cost	21	1,659,844	1,579,556
Net movement in the provision for impairment of receivables	11, 19	505,329	260,548
Impairment loss on finance leases		122,558	94,242
Non-cash settlement of technological connection revenue	18	(3,661,767)	(4,525,382)
Provision for/(release of) impairment of inventories	9, 18	15,393	(50,877)
Net expense for the defined benefit plan	14	98,935	90,418
Net movements in other provisions		86,560	(27,032)
<b>Operating cash flows before changes in working capital</b>		<b>7,613,089</b>	<b>7,764,844</b>
Increase / (decrease) in trade and other payables		4,074,509	(2,282,071)
(Decrease) / increase in other current liabilities		(4,314,711)	1,122,120
Increase in other non-current liabilities		2,759,575	660,853
Decrease / (increase) in trade and other receivables		346,281	(137,332)
Decrease / (increase) in inventories		147,781	(40,736)
Increase in other current assets		(271,721)	(275,750)
<b>Cash generated from operations</b>		<b>10,354,803</b>	<b>6,811,928</b>
Interest paid		(1,388,378)	(1,268,358)
Income tax paid		(982,139)	(1,734,459)
Pension benefits paid	14	(40,206)	(33,642)
<b>Net cash generated from operating activities</b>		<b>7,944,080</b>	<b>3,775,469</b>

**OJSC LENENERGO**  
**Consolidated statement of cash flows**  
**for the year ended 31 December 2011 (continued)**

	Note	Year ended 31 December 2011	Year ended 31 December 2010
<b>Cash flow from investment activities</b>			
Purchases of property, plant and equipment		(11,789,046)	(5,825,998)
Purchases of intangible assets		(119,613)	(99,018)
Proceeds from disposal of property, plant and equipment		1,480	43
Proceeds from sale of available-for-sale investments		-	657,087
Dividends received		-	25,085
Interest received		61,484	72,977
<b>Net cash used in investment activities</b>		<b>(11,845,695)</b>	<b>(5,169,824)</b>
<b>Cash flow from financing activities</b>			
Long-term borrowings received		15,743,400	8,561,000
Settlement of swap agreement		-	(4,900,000)
Repayment of long-term borrowings before maturity		(1,225,000)	(3,000,000)
Repayment of long-term borrowings		(1,280,000)	-
Repayment of short-term borrowings		(1,000,000)	-
Dividends paid	12	(380,861)	(325,804)
Repayment of finance lease liabilities		(1,500,454)	(1,236,574)
<b>Total cash provided by / (used in) financing activities</b>		<b>10,357,085</b>	<b>(901,378)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>6,455,470</b>	<b>(2,295,733)</b>
Cash and cash equivalents at the beginning of the year	7	653,068	2,948,801
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>7,108,538</b>	<b>653,068</b>

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

10 April 2012

**OJSC Lenenergo**  
**Notes to the consolidated financial statements**  
**for the year ended 31 December 2011**  
*(in thousands of Russian Rubles)*

**1. Corporate information**

Open joint stock company of 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 2011 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%), OJSC Energoservisnaya Compania Lenenergo (100%) (hereinafter collectively referred to as “the Group”). The latter company was established in December 2011 and did not have operations in 2011. As at 31 December 2010 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%).

The Group currently operates in 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 2011 the total number of employees was 6,500 (31 December 2010: 6,110).

***Relations with the state and current legislation***

The Group is under control of OJSC MRSK Holding (hereinafter “MRSK-Holding”), which as at 31 December 2011 and 2010 owned 45.71% of the Group’s share capital, including 50.31% of voting ordinary shares, and which in turn is controlled by the Russian Federation. The Group 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 customers based on regulated tariffs. The Russian Federation, St. Petersburg and Leningrad Region governments’ economic, social and other policies can have a material effect on the Group’s operations.

***Financial position and liquidity***

The Group incurred a net loss for 2011 of 943,276 (2010: profit of: 4,750,421), including 950,511 attributed to equity holders of the parent (2010: profit of 4,746,691). The loss was mainly due to the revaluation of property, plant and equipment of 4,255,798 recognized as an impairment loss in the income statement for 2011 (2010: nil) as a result of reduction of expected future cash flows due to limits on maximum growth for electricity transmission tariffs imposed by the Russian government in 2011 (Note 4).

As at 31 December 2011 the Group’s current liabilities exceeded its current assets by 13,041,266 (31 December 2010: 15,125,244).

In 2011 the Group generated cash flow from operating activities of 7,944,080 (2010: 3,775,469).

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**1. Corporate information (continued)**

*Financial position and liquidity (continued)*

In 2011 the Group experienced an improvement in most of liquidity ratios. The current ratio, being current assets divided by current liabilities, increased from 0.30 as at 31 December 2010 to 0.48 as at 31 December 2011; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, increased from 0.10 as at 31 December 2010 to 0.32 as at 31 December 2011.

In the reporting period change in the liquidity ratios was affected by the following:

- 1) Reclassification of bonds issued from long-term liabilities to short-term debt as a result of forthcoming maturity in January and April 2012 (Note 13);
- 2) Significant cash proceeds from long-term bank loans received in 2011.

The Group's management is taking the following measures to improve the Group's liquidity position:

- 1) Adjustment of the Group's investments into power lines and equipment:
  - the emphasis was shifted from the construction of new electric power supplies and other power equipment to completion of the previously launched projects having high stage of completion in order to ensure additional operating cash flows within relatively short period of time;
  - tenders aimed at the selection of contractors with innovative construction technologies in order to reduce the construction period and thus to accelerate cash inflows from customers for technological connection to the electricity grids;
  - carrying out investment projects (including engineering and construction works) with a view of the current financial needs of the Group and the investment program priorities.
- 2) Improving operating efficiency of the Group through implementing programs to reduce technological losses on transmission of electricity through the Group's own network and operating expenses.
- 3) Implementing improved financial budgeting procedures with a strong focus on timely collection of receivables; restructuring of liabilities to enable their repayment over a longer period.
- 4) Gradually transferring from assets-settled to cash-settled technological connections to the Group's network. For 2011 non-cash settlement of technological connection revenue comprised 3,661,767 (2010: 4,525,382).
- 5) Negotiating favourable terms for attracting additional borrowings of 15,743,400 (2010: 8,561,000).

The above measures are expected to ensure cash inflows sufficient to finance operations in 2012.

**2. Basis of presentation of the financial statements**

**2.1 Basis of preparation**

The consolidated financial statements comprise the financial statements of OJSC Lenenergo and its subsidiaries as at 31 December 2011. These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

**2. Basis of presentation of the financial statements (continued)**

**2.1 Basis of preparation (continued)**

The consolidated financial statements have been prepared on a historical cost basis except for those cases described below in accounting policy.

The consolidated financial statements are presented in Russian Rubles and all values are rounded to the nearest thousands, except when otherwise indicated.

***Statement of compliance***

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***Basis of consolidation***

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

**2. Basis of presentation of the financial statements (continued)****2.2 Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011.

- IAS 32 *Financial Instruments: Presentation (amendment)* effective for annual periods beginning on or after 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

**IAS 32 *Financial Instruments: Presentation (Amended)***

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

**IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amended)***

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in the Russian Federation. The amendment of the interpretation therefore had no effect on the financial position or performance of the Group.

**Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

## 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)**

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Unreplaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

**2.3 Future changes in accounting policies**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

Standard / Interpretation	Essence of amendments	Effective date
IAS 1 <i>Financial Statement Presentation – Presentation of Items of Other Comprehensive Income</i>	The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will not have an impact on the Group's financial position or performance.	Effective for annual periods beginning on or after 1 July 2012
IAS 12 <i>Income Taxes – Recovery of Underlying Assets</i>	The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment will not have an impact on financial statement of the Group as the Group does not own investment property.	Effective for annual periods beginning on or after 1 January 2012

OJSC Lenenergo

Notes to the consolidated financial statements (continued)

2. Basis of presentation of the financial statements (continued)

2.3 Future changes in accounting policies (continued)

Standard / Interpretation	Essence of amendments	Effective date
Amendments to IAS 19 <i>Employee Benefits</i>	The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact that this amendment will have on the financial position and performance.	Effective for annual periods beginning on or after 1 January 2013
IAS 27 <i>Separate Financial Statements</i> (as revised in 2011)	As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.	Effective for annual periods beginning on or after 1 January 2013
IAS 28 <i>Investments in Associates and Joint Ventures</i> (as revised in 2011)	As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed to IAS 28 <i>Investments in Associates and Joint Ventures</i> , and describes the application of the equity method to investments in joint ventures in addition to associates. The revision of the standard is not likely to have an impact on financial statement of the Group as there are no intentions to enter joint ventures.	Effective for annual periods beginning on or after 1 January 2013
IFRS 7 <i>Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements</i>	The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.	Effective for annual periods beginning on or after 1 July 2011
IFRS 9 <i>Financial Instruments: Classification and Measurement</i>	IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but potentially will have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.	Effective for annual periods beginning on or after 1 January 2013



# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 2. Basis of presentation of the financial statements (continued)

#### 2.3 Future changes in accounting policies (continued)

Standard / Interpretation	Essence of amendments	Effective date
IFRS 10 <i>Consolidated Financial Statements</i>	IFRS 10 replaces the portion of IAS 27 <i>Consolidated and Separate Financial Statements</i> that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 <i>Consolidation - Special Purpose Entities</i> . IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group has not yet determined the potential effect of the standard.	Effective for annual periods beginning on or after 1 January 2013
IFRS 11 <i>Joint Arrangements</i>	IFRS 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>Jointly-controlled Entities - Non-monetary Contributions by Venturers</i> . IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard will not have an impact on financial statement of the Group as there are no intentions with respect to JCE.	Effective for annual periods beginning on or after 1 January 2013
IFRS 12 <i>Disclosure of Involvement with Other Entities</i>	IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard affects disclosure only and has no impact on the Group's financial position or performance.	Effective for annual periods beginning on or after 1 January 2013
IFRS 13 <i>Fair Value Measurement</i>	IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.	Effective for annual periods beginning on or after 1 January 2013

**2. Basis of presentation of the financial statements (continued)****2.4 Significant accounting judgments, estimates and assumptions**

The preparation of the Group's consolidated 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 end of the reporting date and for the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Useful life of intangible assets*

The Group assesses the remaining useful life of intangible assets at least at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of intangible assets and on amortization recognized in profit or loss.

*Useful life of property, plant and equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

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Notes to the consolidated financial statements (continued)

**2. Basis of presentation of the financial statements (continued)**

**2.4 Significant accounting judgments, estimates and assumptions (continued)**

**Estimates and assumptions (continued)**

*Revaluation of property, plant and equipment*

The Group measures property, plant and equipment at revalued amounts with changes in fair value being recognised in income statement and other comprehensive income. The Group engaged independent valuation specialists to determine fair value of property, plant and equipment as at 31 December 2011 (Note 4).

*Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or services or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows from electricity transmission tariff growth rate used for a cash generating unit (Note 4).

*Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

*Impairment provision for accounts receivable and advances given*

The Group estimates the amount of impairment provision for its receivables. Significant judgment is used to estimate accounts which are impaired. In estimating doubtful accounts historical and anticipated customer performance is considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the impairment provision for accounts receivable and advances given recorded in the consolidated financial statements. As at 31 December 2011 impairment provision for accounts receivable and advances given was created in the amount of 792,151 (as at 31 December 2010: 956,336). Further details are disclosed in Note 11.

*Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues.

**2. Basis of presentation of the financial statements (continued)**

**2.4 Significant accounting judgments, estimates and assumptions (continued)**

**Estimates and assumptions (continued)**

*Taxes (continued)*

The contingent liability is recognised if the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as probable.

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 the level of future taxable profits together with future tax planning strategies.

*Pension and other post employment benefits*

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions about the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management of the Group uses a zero-coupon yield curve for government bonds for the term to maturity of 10 years. The net employee liability under the defined benefit pension plans as at 31 December 2011 was 410,041 (31 December 2010: 351,312). Further details are disclosed in Note 14.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions directly by reference to the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

**2.5 Summary of significant accounting policies**

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Business combinations and goodwill (continued)**

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 2. Basis of presentation of the financial statements (continued)

#### 2.5 Summary of significant accounting policies (continued)

##### Intangible assets (continued)

Intangible assets with finite lives are amortised 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 is reviewed at least at the end of each reporting period. 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 the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life 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 the income statement when the asset is derecognised.

In 2011 the Group acquired the right to connect end users to the electricity grid to 3 power substations in Saint-Petersburg for 304,922. In 2011 the Group recognized impairment of these assets of 148,440 (Note 3). In 2010 the Group recognized impairment of right to connect end users to the electricity grid in Roschino purchased in 2009 in the amount of 37,360 (Note 3).

The expected useful lives by asset groups, in years, are as follows:

<b>Asset group</b>	<b>Useful life</b>
Access right	30
Accounting software packages	2-3
Certificates	3

##### Property, plant and equipment

Property, plant and equipment is stated at a revalued amount, which is their fair value as at the revaluation date less accumulated depreciation and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence, is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The transfer from the asset revaluation reserve to retained earnings is made when the asset is derecognised. This involves transferring the whole of the surplus when the asset is retired or disposed of. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

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Notes to the consolidated financial statements (continued)

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Property, plant and equipment (continued)**

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

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 the 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:

<b>Asset group</b>	<b>Useful life</b>
Production premises	40-50
Power lines	30-40
Equipment, power equipment, sub-stations	25-40
Other	5-25

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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, even if that right is not explicitly specified in an arrangement.

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 that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement 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 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 recognised in finance expense in the income statement.

**2. Basis of presentation of the financial statements (continued)****2.5 Summary of significant accounting policies (continued)****Leases (continued)*****Group as a lessee (continued)***

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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 estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.



**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Impairment of non-financial assets (continued)**

The following assets have specific characteristics for impairment testing:

***Goodwill***

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods

***Intangible assets***

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**Financial assets**

***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

As at 31 December 2011 the Group's financial assets include cash and short-term deposits, trade and other receivables, unquoted financial instruments.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets (continued)**

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intent to sell them in the near term is still appropriate. When the Group in rare circumstances is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

**2. Basis of presentation of the financial statements (continued)****2.5 Summary of significant accounting policies (continued)****Financial assets (continued)***Subsequent measurement (continued)**Held-to-maturity investments*

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, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2011 and 2010.

*Available-for-sale financial assets*

Available-for-sale financial investments include equity instruments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in other reserves until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from other reserves to the income statement in finance costs.

Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets (continued)**

*Subsequent measurement (continued)*

*Available for sale financial assets (continued)*

As at 31 December 2011 the Group holds available-for-sale investment with the fair value of 26,700 (31 December 2010: 30,000).

***Derecognition***

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluated if and to what extent it has retained the risks and rewards of ownership. When it 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. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**2. Basis of presentation of the financial statements (continued)****2.5 Summary of significant accounting policies (continued)****Financial assets (continued)****Impairment of financial assets (continued)***Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets (continued)**

**Impairment of financial assets (continued)**

*Available-for-sale financial investments (continued)*

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

As at 31 December 2011 the Group's financial liabilities include trade and other payables (Note 16) and borrowings (Note 13).

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 the income statement.

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial liabilities (continued)**

*Subsequent measurement (continued)*

*Financial liabilities at fair value through profit or loss (continued)*

Financial liabilities designated upon initial recognition at fair value through profit and loss so designated at the initial date of recognition, and only if criteria of IAS 39 are satisfied. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

*Loans and borrowings*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included in finance cost in the income statement.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

***Derecognition***

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

**Derivative financial instruments**

*Initial recognition and subsequent measurement*

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

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

As at 31 December 2011 and 2010 the Group did not have any derivatives designated as hedging instruments. In 2010 the Group recognized gain of 143,179 (Note 20) related to the change in the fair value of the interest rate and currency swap contract settled in December 2010 within finance income in the income statement.

**Inventories**

Inventories are valued at the lower of net realisable value and cost determined using FIFO method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. As at 31 December 2011 and 2010 the Group recognized an impairment provision of 127,721 and 112,328 respectively (Note 9).

**Cash and cash equivalents**

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

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



**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**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 payroll expenses in the consolidated income statement.

The Group also contributes to defined benefit and defined contribution pension plans. The defined benefit plan involves post-employment payments based upon one or more factors, such as age, years with the Group and salary. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs and actuarial gains and losses not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. Defined benefit obligation is determined using the projected unit credit actuarial valuation 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 exceed 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.

Other long-term benefits include:

- funeral benefit
- jubilee benefit

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

**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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

**Borrowing costs**

The Group qualifies for the exemption from borrowing cost capitalization according to IAS 23 (4) since its qualified assets are measured at fair value. Borrowing costs are recognised as an expense when incurred.

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Foreign currency translation**

The Group's consolidated financial statements are presented in rubles, which is the Group's functional currency, being the currency of the primary economic environment in which the Group operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

The official spot exchange rates prevailing at 31 December 2011 were 32.1961 Rubles for 1 USD and 41.6714 Rubles for 1 Euro (31 December 2010: 30.4769 Rubles for 1 USD and 40.3331 Rubles for 1 Euro).

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, taking into account contractually defined terms of payment, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

***Rendering of services***

Revenue is recognized by type of activity:

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

The Group charges all its customers (wholesale or retail sellers of 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 (Note 18). Revenue from 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.

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.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Revenue recognition (continued)**

*Sales of other assets*

Revenue from the sale of other assets (materials, property, plant and equipment) is recognised when the significant risks and rewards of ownership of these assets have passed to the buyer, usually on delivery of the goods.

*Interest income*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included into finance income in the income statement (Note 20).

*Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

**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 reporting date, in the country where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Income tax rate enacted in the Russian Federation is 20%.

*Deferred income tax*

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

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

- when 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;

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Taxes (continued)**

*Deferred income tax (continued)*

- 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 tax assets are recognised 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 utilised except:

- when 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;
- 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 tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

*Value-added tax*

Revenues, expenses and assets are recognised net of the amount of value-added tax.

The net amount of value-added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**2. Basis of presentation of the financial statements (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Dividends**

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

**Earnings per share**

IAS 33, 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 declared in the period 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 (Note 12, 23). 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.

**2.6 Reclassifications**

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:

- Provisions of 37,196 as at 31 December 2010 are shown separately, while previously reported within Trade and Other Payables (Note 16).

Such reclassification had no impact on the financial position or performance of the Group.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 3. Intangible assets

	Accounting software	Certificates	Access right	Goodwill	Total
<b>Cost</b>					
<b>As at 1 January 2010</b>	<b>337,007</b>	<b>103,277</b>	<b>624,000</b>	<b>312,833</b>	<b>1,377,117</b>
Additions for the period	40,793	18,963	–	–	59,756
Disposal for the period	(137,151)	(74,614)	–	–	(211,765)
<b>As at 31 December 2010</b>	<b>240,649</b>	<b>47,626</b>	<b>624,000</b>	<b>312,833</b>	<b>1,225,108</b>
Additions for the period	106,468	–	304,922	–	411,390
Disposal for the period	(156,709)	(14,609)	–	–	(171,318)
<b>As at 31 December 2011</b>	<b>190,408</b>	<b>33,017</b>	<b>928,922</b>	<b>312,833</b>	<b>1,465,180</b>
<b>Amortization and impairment</b>					
<b>As at 1 January 2010</b>	<b>(152,200)</b>	<b>(62,809)</b>	<b>(153,000)</b>	<b>(312,833)</b>	<b>(680,842)</b>
Charge for the period	(73,528)	(27,899)	(16,060)	–	(117,487)
Disposal for the period	137,151	74,614	–	–	211,765
Impairment	–	–	(37,360)	–	(37,360)
<b>As at 31 December 2010</b>	<b>(88,577)</b>	<b>(16,094)</b>	<b>(206,420)</b>	<b>(312,833)</b>	<b>(623,924)</b>
Charge for the period	(78,271)	(15,806)	(20,670)	–	(114,747)
Disposal for the period	121,911	14,609	–	–	136,520
Impairment	–	–	(148,440)	–	(148,440)
<b>As at 31 December 2011</b>	<b>(44,937)</b>	<b>(17,291)</b>	<b>(375,530)</b>	<b>(312,833)</b>	<b>(750,591)</b>
<b>Net book value as at 31 December 2010</b>	<b>152,072</b>	<b>31,532</b>	<b>417,580</b>	<b>–</b>	<b>601,184</b>
<b>Net book value as at 31 December 2011</b>	<b>145,471</b>	<b>15,726</b>	<b>553,392</b>	<b>–</b>	<b>714,589</b>

Certificates are acquired for the purposes of conformity with the electricity quality standards. The new certificates are valid until 2013. The Group believes that it will be able to renew the certificates upon expiration without incurring substantial costs.

In 2011 the Group acquired the right to connect end users to the electricity grid in St. Petersburg for 304,922.

Within the impairment review of the intangible assets the Group took into account (among other factors) the uncertainty regarding future connections to electricity grids which was considered to be an impairment indicator. As at 31 December 2011 the Group performed an impairment analysis of the intangible assets and recognized in the income statement the impairment loss of 148,440 (2010: 37,360).

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Notes to the consolidated financial statements (continued)

4. Property, plant and equipment

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
<b>Cost</b>						
As at 1 January 2010	15,091,999	58,935,761	25,161,729	9,915,830	15,199,607	124,304,926
Additions	–	–	357,807	3,591	14,657,527	15,018,925
Disposals	(22,509)	(4,316)	(50,181)	(110,330)	(137,870)	(325,206)
Transfer	6,781,267	1,608,965	5,304,555	995,145	(14,689,932)	–
As at 31 December 2010	21,850,757	60,540,410	30,773,910	10,804,236	15,029,332	138,998,645
As at 1 January 2010	21,850,757	60,540,410	30,773,910	10,804,236	15,029,332	138,998,645
Additions	–	–	712,366	–	15,327,093	16,039,459
Revaluation	(1,944,212)	(11,567,091)	(5,749,755)	(5,217,564)	(579,295)	(25,057,917)
Disposals	(197,703)	(27,344)	(84,940)	(255,205)	(120,265)	(685,457)
Transfer	4,627,666	3,306,325	6,375,599	718,635	(15,028,225)	–
As at 31 December 2011	24,336,508	52,252,300	32,027,180	6,050,102	14,628,640	129,294,730
<b>Accumulated depreciation and impairment</b>						
As at 1 January 2010	(2,465,437)	(32,581,527)	(6,839,380)	(7,194,212)	(1,892,139)	(50,972,695)
Charge for the year	(515,235)	(2,274,640)	(1,227,624)	(413,368)	–	(4,430,867)
Impairment loss on initial recognition of finance leases (Note 13)	–	–	(94,242)	–	–	(94,242)
Disposals	4,037	4,316	20,750	91,631	–	120,734
As at 31 December 2010	(2,976,635)	(34,851,851)	(8,140,496)	(7,515,949)	(1,892,139)	(55,377,070)
As at 31 December 2010	(2,976,635)	(34,851,851)	(8,140,496)	(7,515,949)	(1,892,139)	(55,377,070)
Charge for the year	(659,392)	(2,256,608)	(1,313,076)	(583,587)	–	(4,812,663)
Revaluation	(96,696)	5,853,253	1,802,133	5,619,594	–	13,178,284
Impairment loss on initial recognition of finance leases (Note 13)	–	–	(122,558)	–	–	(122,558)
Disposals	71,118	19,430	51,589	215,857	–	357,994
As at 31 December 2011	(3,661,605)	(31,235,776)	(7,722,408)	(2,264,085)	(1,892,139)	(46,776,013)
<b>Net book value as at</b>						
31 December 2010	18,874,122	25,688,559	22,633,414	3,288,287	13,137,193	83,621,575
Net book value as at						
31 December 2011	20,674,903	21,016,524	24,304,772	3,786,017	12,736,501	82,518,717

## 4. Property, plant and equipment (continued)

*Revaluation*

Property, plant and equipment were revalued to fair value as at 31 December 2011. 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 82,518,717. This value was then apportioned between the individual items of property, plant and equipment prorata on the basis of their depreciated replacement cost;
- The revaluation performed by the Group is most sensitive to the following assumptions used:

	2012	2013-2014	2015-2016	2017-2018	2019-2021
Transmission revenue tariff increase, %	5.50	9.00-10.00	11.00	11.00	10.00-11.00
Transmission volume increase, %	1.26	0.64-1.02	1.01-1.46	0.82	0.82
Normal network technological losses, %	10.81	10.49-10.55	9.97-10.04	9.98	9.98-9.99
Weighted average cost of capital (WACC), %	11.53	11.53	11.53	11.53	11.53

*Transmission revenue tariff increase* – The Group considered the reasonable rate on return (ROR) tariffication model from 2011 and onwards, which is expected to cause future increase in transmission tariffs in the next ten years. A reduction of revenue tariff growth by 1% would result in decrease of the recoverable amount of CGU by 14%.

*Transmission volume increase* – The Group has considered transmission volume trends during prior periods as well as management plans and analytic forecasts on future electricity consumption in Saint-Petersburg and Leningrad region. Should the Group be unable to achieve any growth in transmission volume the recoverable amount of CGU will decrease by 15%.

*Normal network technological losses* – The Group accounted for future decline in technological losses normal level as result of taken measures on losses prevention and installation of more accurate electricity metering equipment. Increase in normal network technological losses by 1% would affect the reduction of CGU recoverable amount by 8%.

*Weighted average cost of capital (WACC)* – The Group considered future decrease in cost of capital mainly caused by the expected decline in inflation rate. If WACC increases by 1%, the recoverable amount of CGU reduces by 13%.

Cash flows beyond the ten-year period are projected using the 2.7% long-term average *inflation rate* in Russia. Decrease in inflation rate by 1% would result in the reduction of CGU recoverable amount by 0.8%.



OJSC Lenenergo

Notes to the consolidated financial statements (continued)

4. Property, plant and equipment (continued)

*Revaluation (continued)*

	<b>Production premises</b>	<b>Power lines</b>	<b>Equipment, power equipment, sub-stations</b>	<b>Other</b>	<b>Assets under construction</b>	<b>Total</b>
Decrease in fair value recognized in income statement	(35,904)	(507,819)	(1,184,110)	34,003	(2,561,968)	<b>(4,255,798)</b>
Decrease in fair value recognized within equity	(2,005,004)	(5,206,019)	(2,763,512)	368,027	1,982,673	<b>(7,623,835)</b>
<b>Total</b>	<b>(2,040,908)</b>	<b>(5,713,838)</b>	<b>(3,947,622)</b>	<b>402,030</b>	<b>(579,295)</b>	<b>(11,879,633)</b>

As a result of the revaluation, 7,623,835 was debited to the fair value reserve as at 31 December 2011 (Note 12), while 4,255,798 was charged to the income statement for 2011 as an impairment loss (Note 19).

*Property, plant and equipment under finance lease*

Assets received under finance lease and recognized within property, plant and equipment were structured as follows:

	<b>31 December 2011</b>	<b>31 December 2010</b>
Cost	<b>4,404,286</b>	4,043,665
Accumulated depreciation	<b>(1,063,750)</b>	(845,310)
<b>Net book value</b>	<b>3,340,536</b>	3,198,355

Property, plant and equipment under finance lease were pledged as security for the respective finance lease agreements.

Acquisitions under finance lease of 712,366 (2010: 357,003) were excluded from the consolidated statement cash flows, so investing activities in the consolidated cash flow statement represent actual cash transactions.

5. Advances for construction of property, plant and equipment

Advances of 854,343 paid to construction contractors (31 December 2010: 2,317,079) are stated net of an impairment provision of 202,582 (31 December 2010: 420,436). Movements in the provision for impairment of advances to construction are disclosed in Note 11.

6. Other non-current assets

	<b>31 December 2011</b>	<b>31 December 2010</b>
VAT recoverable after more than 12 months	<b>734,486</b>	314,639
Other non-current assets	<b>108,693</b>	125,791
<b>Total</b>	<b>843,179</b>	440,430

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 7. Cash and cash equivalents

	31 December 2011	31 December 2010
Bank deposits reclaimable on demand – Rubles	5,651,174	520,620
Bank accounts and cash in hand – Rubles	1,457,364	132,448
<b>Total</b>	<b>7,108,538</b>	<b>653,068</b>

As at 31 December 2011 the Group had open deposit agreements with original maturity of less than 3 months placed with a number of banks bearing an interest of 2.1-6.8 % p.a. if the Group maintains minimum cash balances. Interest receivable for the year ended 31 December 2011 included in finance income (Note 20) comprised 60,754 (2010: 72,977).

### 8. Accounts receivable

	31 December 2011	31 December 2010
Trade receivables net of impairment provision of 386,263 (2010: 383,336)	868,593	1,357,726
Other accounts receivable net of impairment provision of 25,138 (2010: 35,834)	122,451	136,272
<b>Total</b>	<b>991,044</b>	<b>1,493,998</b>

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. The Group analyses the ability of debtors to fulfil the payment obligation on a regular basis and creates provision for impairment that represents the estimate of potential losses in respect of trade and other receivables. The components of this provision are a specific provision for individual losses. Management believes that the Group will be able to realise the net receivable amount through direct collections and non-cash settlements, and therefore the recorded value approximates their fair value. Movements in the provision for impairment of accounts receivable are disclosed in Note 11.

For trade and other receivables which are neither past due nor impaired at the reporting 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 and other receivables bear no interest and are generally repaid within a calendar year.

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Notes to the consolidated financial statements (continued)

**8. Accounts receivable (continued)**

As at 31 December 2011 and 2010, the ageing analysis of trade receivables is as follows:

	Receivables from transmission	Receivables from technical connection	Other receivables	Total
<b>31 December 2011</b>				
Neither past due nor impaired	574,549	87,469	122,451	784,469
<b>Past due:</b>				
0-30 days	31,284	9,578	–	40,862
30-90 days	702	26,854	–	27,556
90-180 days	–	18,683	–	18,683
180-365 days	–	22,256	–	22,256
more than 1 year	–	97,218	–	97,218
<b>Total</b>	<b>606,535</b>	<b>262,058</b>	<b>122,451</b>	<b>991,044</b>
<b>31 December 2010</b>				
Neither past due nor impaired	888,062	82,025	136,272	1,106,359
<b>Past due:</b>				
0-30 days	25,286	64,641	–	89,927
30-90 days	–	31,745	–	31,745
90-180 days	–	110,977	–	110,977
180-365 days	–	67,315	–	67,315
more than 1 year	–	87,675	–	87,675
<b>Total</b>	<b>913,348</b>	<b>444,378</b>	<b>136,272</b>	<b>1,493,998</b>

As at 31 December 2011 the amounts which are past due but not impaired mainly represent receivables from technological connection customers. Management believes that the Group will be able to recover the receivable amounts through direct cash collections. Accordingly, no impairment provision is accrued for those receivables as at the respective dates.

**9. Inventories, net of impairment**

	31 December 2011	31 December 2010
Materials	147,225	328,818
Spare parts	86,232	72,295
Uniform	24,428	20,405
Tools	11,591	13,605
Other inventories	20,129	17,656
<b>Total</b>	<b>289,605</b>	<b>452,779</b>

As at 31 December 2011 inventories are stated at cost net of impairment of 127,721 (as at 31 December 2010: 112,328).

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**10. Other current assets**

	31 December 2011	31 December 2010
VAT receivable net of impairment provision of 102,693 (2010: 89,535)	2,945,239	3,415,153
Prepayments and advances given to suppliers net of impairment provision of 75,475 (2010: 27,195)	552,201	335,743
Other taxes receivable	6,408	3,605
Other current assets	–	2,191
<b>Total</b>	<b>3,503,848</b>	<b>3,756,692</b>

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 11.

**11. Impairment provision for accounts receivable and advances given**

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

	Trade receivables	VAT receivable	Advances to suppliers	Advances for construction	Other receivables	Total
<b>As at 1 January 2010</b>	410,130	53,924	22,615	176,502	39,889	<b>703,060</b>
Charge for the year	95,049	43,963	16,428	361,213	–	<b>516,653</b>
Released	(114,827)	(8,352)	(11,770)	(117,279)	(3,877)	<b>(256,105)</b>
Utilized	(7,016)	–	(78)	–	(178)	<b>(7,272)</b>
<b>As at 31 December 2010</b>	<b>383,336</b>	<b>89,535</b>	<b>27,195</b>	<b>420,436</b>	<b>35,834</b>	<b>956,336</b>
Charge for the year	222,796	39,439	53,413	344,690	9,688	<b>670,026</b>
Released	(55,972)	(14,223)	(2,813)	(71,849)	(19,840)	<b>(164,697)</b>
Utilized	(163,897)	(12,058)	(2,320)	(490,695)	(544)	<b>(669,514)</b>
<b>As at 31 December 2011</b>	<b>386,263</b>	<b>102,693</b>	<b>75,475</b>	<b>202,582</b>	<b>25,138</b>	<b>792,151</b>

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 12. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Ordinary shares	926,021,679	926,021,679	4,866,115
Preference shares	93,264,311	93,264,311	625,603	625,603
<b>Total</b>	<b>1,019,285,990</b>	<b>1,019,285,990</b>	<b>5,491,718</b>	<b>5,491,718</b>

#### Share capital

The par value of both ordinary and preference shares is 1 Ruble per share.

Ordinary shares carry voting rights with no guarantee of dividends.

#### 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 Group, 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 Group 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 are distributed among preference and ordinary shareholders proportionally to the number of shares owned.

Accordingly, the Group's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 23).

#### 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 net profit of the Company as at 31 December 2011 amounted to 1,417,420 (as at 31 December 2010: 3,805,591). Retained earnings under statutory accounting rules as at 31 December 2011 amounted to 10,996,429 (as at 31 December 2010: 10,118,260).

#### Dividend declared and paid

In 2011 dividends for the year ended 31 December 2010 were declared in the amount of 4.0804 Rubles per preference share (nil per ordinary share). The total amount of dividends accrued in 2011 for the year ended 31 December 2010 was 380,861 (31 December 2009: 325,804). Dividends for the year ended 31 December 2011 were not declared by the date of report issue.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 12. Equity (continued)

#### Other reserves

	Asset revaluation reserve	Net unrealised gains on available-for-sale investments	Total
<b>As at 1 January 2010</b>	<b>28,721,632</b>	<b>281,794</b>	<b>29,003,426</b>
Unrealised gain on available-for-sale investments, net of tax effect of 32,241	–	128,966	128,966
Reclassification of unrealized gain reserve on available-for-sale financial assets to income statement, net of tax effect of 106,573	–	(426,293)	(426,293)
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 11,676	(46,705)	–	(46,705)
<b>As at 31 December 2010</b>	<b>28,674,927</b>	<b>(15,533)</b>	<b>28,659,394</b>
Revaluation of property, plant and equipment, net of tax effect of 1,524,767	(6,099,068)	–	(6,099,068)
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 43,890	(209,864)	–	(209,864)
Unrealised loss on available-for-sale investments, net of tax effect of 660	–	(2,640)	(2,640)
<b>As at 31 December 2011</b>	<b>22,365,995</b>	<b>(18,173)</b>	<b>22,347,822</b>

Asset revaluation reserve is used to record increases in the fair value of property, plant and equipment and assets under construction and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Net unrealized gains reserve accumulates changes in the fair value of available-for-sale investments.

### 13. Borrowings

	Effective interest rate	Maturity date	31 December 2011	31 December 2010
Bonds issued by the Group				
series 02	8.54%	2012	2,999,466	2,993,647
series 03	8.02%	2012	2,998,136	2,992,469
Bank loans (Rubles)	7.01% - 8.19%	2013-2016	20,800,000	8,561,600
Finance lease liabilities	14.86% - 34.45%	2012-2015	586,643	1,143,176
<b>Total borrowings</b>			<b>27,384,245</b>	<b>15,690,892</b>
Less: current portion of bonds	8.02%-8.54%		(5,997,602)	–
Less: current portion of finance lease liabilities	14.86% - 34.45%		(358,562)	(566,041)
Less: current portion of bank loans			–	(1,000,000)
<b>Current portion of long-term borrowings</b>			<b>(6,356,164)</b>	<b>(1,566,041)</b>
<b>Long-term borrowings, net of current portion</b>			<b>21,028,081</b>	<b>14,124,851</b>

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**13. Borrowings (continued)**

*Bonds*

As at 31 December 2011 the Group had outstanding 2nd and 3rd issue bonds.

In February 2007 the Group registered the 2nd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the 1st coupon were due on the 181st day from the date of bond placement, and other coupon payments are payable every 184th day. The interest rate under coupons is set at 8.54% p.a. The bonds mature in January 2012, in 1820 days from the date of placement with no option for early redemption. In 2011 the Group fully met its coupon obligations under the 8th and 9th coupons at 8.54% p.a. in the total amount of 255,480 (2010: under the 6th and 7th coupons - 255,480). Coupon payment per bond was 42.58 Rubles. As at 31 December 2011 the outstanding 2nd issue bonds of 2,999,466 were classified as current liabilities due to the forthcoming maturity in January 2012 (31 December 2010: 2,993,647 classified as long-term debt).

In April 2007 the Group registered the 3rd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the 1st 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 2011 the Group fully met its coupon obligations under the 8th and 9th coupons at 8.02% p.a. in the total amount of 239,940 (2010: under the 6th and 7th coupons - 239,940). Coupon payment per bond was 39.99 Rubles. As at 31 December 2011 the outstanding 3rd issue bonds of 2,998,136 were classified as current liabilities due to the forthcoming maturity in April 2012 (31 December 2010: 2,992,469 classified as long-term debt).

*Loans*

*Bank loans*

In 2011 the Group received from OJSC Sberbank several tranches in the amount of 1,853,900 under agreements concluded in 2010 and 7,000,000 under agreements for non-renewable credit lines entered into in 2011 bearing interest of 7.01% - 7.86% and maturing in April 2014-November 2014.

The Group borrowed 356,000 under credit line granted by OJSC AKB Svyaz-bank bearing interest of 7.40% and maturing on 29 July 2015. In January 2011 the Group repaid 800,000 received under agreement concluded with OJSC AKB Svyaz-bank in 2009.

In 2011 the Group received several tranches for the total amount of 3,044,981 under non-renewable credit line agreements with OJSC Bank VTB Severo-Zapad concluded in 2010 maturing in May 2012-November 2014 and bearing interest of 6.95% - 7.85%. In 2011 the Group repaid 2,241,481 under these agreements before maturity.

In April 2011 the Group entered into agreements with OJSC Bank Russia for non-renewable credit lines in the total amount of 4,025,000 bearing interest of 7.26% - 7.33% and maturing in April 2016. At the same time the Group repaid 1,000,000 received under agreement concluded with OJSC Bank Russia in 2010.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 13. Borrowings (continued)

#### *Finance lease liabilities*

As at 31 December 2011 the Group entered into lease agreements for electricity transmission equipment and transport vehicles which have been delivered to the Group by the reporting date and, therefore, are recognized in these consolidated financial statements. Future minimum lease payments under finance lease are as follows:

	During the next year	During 2-5 years	Over 5 years	Total
<b>As at 31 December 2011</b>				
Future minimum lease payments	457,772	252,695	–	710,467
Less: future interest expenses	(99,210)	(24,614)	–	(123,824)
Present value of future minimum lease payments	358,562	228,081	–	586,643
<b>As at 31 December 2010</b>				
Future minimum lease payments	767,450	664,021	–	1,431,471
Less: future interest expenses	(201,409)	(86,886)	–	(288,295)
Present value of future minimum lease payments	566,041	577,135	–	1,143,176

All lease agreements are fully secured against the Group's leased assets (Note 4).

In 2011 and 2010 the Group's primary lessors were LLC Goldline and LLC VTB-Leasing.

Certain finance lease agreements provide for inception and commencement dates which are substantially different in time and the Group is required to prepay a substantial amount of the fair value of the leased assets before commencement date. As of the commencement dates the present value of future minimum lease payments together with the amounts already prepaid exceeded the fair value of the leased assets, and the Group had to recognize an impairment loss on initial recognition of the leased assets. As a result, the difference of 122,558 (2010: 94,242) was immediately recognized within operating expenses in the income statement for 2011 (Note 19).

The Group had entered into a number of finance leases under which equipment was not received as at 31 December 2010. Accordingly, the liabilities arising from the above financial leases are not reported in these financial statements. The present value of future minimum lease payments under these agreements as at 31 December 2011 is 60,236 (31 December 2010: 765,663). Future interest expense is 11,324 (31 December 2010: 194,034). As at 31 December 2011 the Group paid advances of 103,713 under these leases (31 December 2010: 932,851).

### 14. Post-employment benefit liabilities

The Group makes obligatory contributions to the Government pension fund for its employees which are charged to expense when incurred during the employee's service period. Total contributions to Government pension fund amounted to 615,557 for the year ended 31 December 2011 (2010: 396,607).

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



## Notes to the consolidated financial statements (continued)

**14. Post-employment benefit liabilities (continued)**

The majority of employees are eligible for defined benefit plans which provide an old age retirement pension. The plans provide for payments of retirement benefits starting from average retirement age which is currently 60.5 for women and 64 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 a number of years with the Group.

Non-government pension fund Electroenergetiki, which is related to the Group (Note 25), 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 2011 there were 6,117 working employees participating to the defined benefit plan of the Group and 1,311 pensioners (31 December 2010: 6,044 and 1,342, 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'.

As at 31 December 2011 and 2010 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2011			2010		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Present value of defined benefit obligation	(449,850)	(327,293)	(122,557)	(438,280)	(348,778)	(89,502)
Unrecognized net actuarial gains	(28,237)	(28,237)	–	(12,360)	(12,360)	–
Unrecognized past service cost	68,046	68,046	–	99,328	99,328	–
<b>Net pension liability in the statement of financial position</b>	<b>(410,041)</b>	<b>(287,484)</b>	<b>(122,557)</b>	<b>(351,312)</b>	<b>(261,810)</b>	<b>(89,502)</b>

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**14. Post-employment benefit liabilities (continued)**

Changes in the present value of defined benefit obligations in 2011 and 2010 were as follows:

	2011			2010		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Net defined benefit obligation as at 1 January	438,280	348,778	89,502	374,822	314,621	60,201
Interest cost on benefit obligation	34,267	26,843	7,424	36,473	29,319	7,154
Current service cost	23,109	14,740	8,369	19,532	12,816	6,716
Past service cost (recognized and unrecognized)	(13,631)	(13,631)	–	16,153	–	16,153
Benefits paid	(40,206)	(29,708)	(10,498)	(33,642)	(24,826)	(8,816)
Actuarial losses /(gains) on obligation	20,574	(7,186)	27,760	24,942	16,848	8,094
Curtailment gain	(12,543)	(12,543)	–	–	–	–
<b>Net defined benefit obligation as at 31 December</b>	<b>449,850</b>	<b>327,293</b>	<b>122,557</b>	<b>438,280</b>	<b>348,778</b>	<b>89,502</b>

The movements in the net pension liability in 2011 and 2010 were as follows:

	2011			2010		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Net pension liability as at 1 January	351,312	261,810	89,502	294,536	234,335	60,201
Net expense	98,935	55,382	43,553	90,418	52,301	38,117
Benefits paid	(40,206)	(29,708)	(10,498)	(33,642)	(24,826)	(8,816)
<b>Net pension liability as at 31 December</b>	<b>410,041</b>	<b>287,484</b>	<b>122,557</b>	<b>351,312</b>	<b>261,810</b>	<b>89,502</b>

Net expense under the defined benefit plans in 2011 and 2010 was as follows:

	2011			2010		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Current service cost	23,109	14,740	8,369	19,532	12,816	6,716
Interest cost	34,267	26,843	7,424	36,473	29,319	7,154
Net actuarial loss recognized in the period	36,913	9,153	27,760	8,094	–	8,094
Recognized past service cost	9,699	9,699	–	26,319	10,166	16,153
Curtailment gain	(5,053)	(5,053)	–	–	–	–
<b>Net expense for the defined benefit plan</b>	<b>98,935</b>	<b>55,382</b>	<b>43,553</b>	<b>90,418</b>	<b>52,301</b>	<b>38,117</b>

OJSC Lenenergo  
Notes to the consolidated financial statements (continued)

**14. Post-employment benefit liabilities (continued)**

Net 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:

	<u>2011</u>	<u>2010</u>
Discount rate (actuarial rate of return), %	8.5	8.0
Estimated future salary increases, %	7.5	7.5
Estimated future rate of inflation, %	6.0	6.0

Present value of defined benefit obligation and experience adjustments for the current and previous four periods are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Defined benefit obligation	(449,850)	(438,280)	(374,822)	(421,168)	(296,924)
Experience adjustments on plan liabilities	(40,641)	5,715	56,625	(32,967)	(32,967)

The Group expects to contribute 32,656 to its defined benefit pension plans in 2012.

**15. Other non-current liabilities**

	<u>31 December 2011</u>	<u>31 December 2010</u>
Long-term advances received	4,815,563	2,053,831
Trade accounts payable	68,743	62,135
<b>Total</b>	<u>4,884,306</u>	<u>2,115,966</u>

**16. Trade and other payables**

	<u>31 December 2011</u>	<u>31 December 2010</u>
Trade accounts payable	6,109,837	3,298,985
Employee-related payables	533,860	313,258
Interest accrued on bank loans and coupon bonds	193,141	171,790
Other taxes payable	124,597	89,735
Other	326,184	343,070
<b>Total</b>	<u>7,287,619</u>	<u>4,216,838</u>

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 17. Provisions

Movements in provisions during the reporting period were as follows:

	<b>Provisions</b>
<b>As at 1 January 2010</b>	120,554
Arising during the period	16,516
Utilised	(51,352)
Reversed	(48,522)
<b>As at 31 December 2010</b>	<b>37,196</b>
Arising during the period	104,720
Utilised	(1,985)
Reversed	(18,160)
<b>As at 31 December 2011</b>	<b>121,771</b>

Provisions relate to the claims brought against the Group in the ordinary course of business. The balance of the provision as at 31 December 2011 is expected to be utilised in 2012. The management of the Group believes that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

### 18. Revenue

	<b>2011</b>	<b>2010</b>
Network transmission of electricity	<b>28,426,787</b>	23,872,903
Technological losses at the normal (expected) level	<b>(5,531,506)</b>	(6,181,027)
<b>Network transmission of electricity, net of normal (expected) losses</b>	<b>22,895,281</b>	17,691,876
Technological connection to electricity grids	<b>8,629,336</b>	10,299,774
Other revenue	<b>732,178</b>	581,925
<b>Total</b>	<b>32,256,795</b>	28,573,575

In 2011 electricity transmission revenue before technological losses at the normal (expected) level from OJSC PSK and LLC Energia-Holding, amounted to 19,358,904 (2010: 16,269,034) and 4,411,197 (2010: 5,557,066), respectively, comprising 84% (2010: 91%) of the total revenue from transmission of electricity before the technological losses at the normal (expected) level. Technological connection fees of 3,661,767 (2010: 4,525,382) were settled by contribution of property, plant and equipment items from the customers.

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Notes to the consolidated financial statements (continued)

**19. Operating expenses**

	<b>2011</b>	<b>2010</b>
Transmission fee	13,402,812	9,773,797
Depreciation (Note 4)	4,812,663	4,430,867
Impairment of property, plant and equipment (Note 4)	4,255,798	–
Payroll and payroll taxes	4,111,829	3,224,912
Repairs and maintenance	1,040,880	936,824
Provision for impairment and write-off of receivables (Note 11)	505,329	260,548
Rent	471,637	504,015
Telecommunication and information services	347,876	265,783
Raw materials and supplies	261,252	231,235
Social expenses	200,605	172,853
Taxes other than income tax	178,544	154,512
Impairment of intangible asset (Note 3)	148,440	37,360
Consulting, legal and audit services	142,401	146,121
Impairment loss on finance leases (Note 13)	122,558	94,242
Internal security expenses	119,539	110,770
Utilities	118,840	108,019
Amortisation of intangible assets (Note 3)	114,747	117,487
Electric metering services	110,857	131,964
Provision for /(reversal of) impairment of inventories	15,393	(50,877)
Other operating expenses	1,021,143	790,359
<b>Total</b>	<b>31,503,143</b>	<b>21,440,791</b>

**20. Finance income**

	<b>2011</b>	<b>2010</b>
Interest receivable	60,754	72,977
Gain on disposal of available-for-sale investments	–	532,866
Gain on swap settlement	–	143,179
Dividends received	–	25,085
Other finance income	730	20
<b>Total</b>	<b>61,484</b>	<b>774,127</b>

**21. Finance cost**

	<b>2011</b>	<b>2010</b>
Interest expense on loans	914,287	719,078
Interest expense on bonds	508,267	507,359
Interest expense on finance leases	228,884	332,846
Other finance expenses	8,406	20,273
<b>Total</b>	<b>1,659,844</b>	<b>1,579,556</b>

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Notes to the consolidated financial statements (continued)

22. Income tax

<b>Consolidated income statement</b>	<b>2011</b>	<b>2010</b>
<b>Current income tax:</b>		
Current income tax charge	846,357	1,383,642
<b>Deferred income tax:</b>		
Relating to reversal and origination of temporary differences	(747,789)	123,151
<b>Income tax expense reported in the income statement</b>	<b>98,568</b>	<b>1,506,793</b>

<b>Consolidated statement of other comprehensive income</b>	<b>2011</b>	<b>2010</b>
Deferred tax related to items charged or credited directly to other comprehensive income:		
Devaluation of property, plant and equipment	1,524,767	–
Unrealised loss/(gain) on available-for-sale investments	660	(32,241)
Reclassification of unrealized gain reserve on available-for-sale financial assets to income statement	–	106,573
<b>Income tax charged directly to other comprehensive income</b>	<b>1,525,427</b>	<b>74,332</b>

Reconciliation between tax expense and accounting profit multiplied by tax rate for the years ended 31 December is as follows:

	<b>2011</b>	<b>2010</b>
Accounting (loss)/ profit before tax	(844,708)	6,257,214
Theoretical tax (benefit)/ expense at statutory income tax rate of 20%	(168,942)	1,251,443
Non-deductible expenses	267,510	255,350
<b>Income tax expense reported in the consolidated income statement at the effective income tax rate of (12)% (2010: 24%)</b>	<b>98,568</b>	<b>1,506,793</b>

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Notes to the consolidated financial statements (continued)

22. Income tax (continued)

Deferred income tax as at 31 December 2011 relates to the following:

	31 December 2010	Movement during 2011 recognized in		31 December 2011
		Equity	Profit or loss for the period	
<i>Tax effect of deferred tax assets:</i>				
Impairment provision for accounts receivable	190,051	–	55,848	245,899
Revenue derecognition	13,797	–	10,095	23,892
Inventory impairment provision	18,628	–	2,999	21,627
Post-employee benefits liability	70,262	–	11,746	82,008
Employee-related accruals	33,063	–	36,554	69,617
Impairment of intangible assets	35,272	–	29,688	64,960
Accruals and provisions	9,754	–	111,479	121,233
Others	77,631	–	(34,662)	42,969
<b>Deferred tax assets, total</b>	<b>448,458</b>	<b>–</b>	<b>223,747</b>	<b>672,205</b>
<i>Tax effect of deferred tax liabilities:</i>				
Property, plant and equipment	(5,751,104)	1,524,767	530,787	(3,695,550)
Revaluation of available-for-sale investments	3,884	660	–	4,544
Discounting of long-term trade accounts payable	(9,133)	–	1,681	(7,452)
Discounting of bonds issued	(2,777)	–	2,297	(480)
Deferred expenses	(21,240)	–	(10,723)	(31,963)
<b>Deferred tax liabilities, total</b>	<b>(5,780,370)</b>	<b>1,525,427</b>	<b>524,042</b>	<b>(3,730,901)</b>
<b>Total deferred tax liabilities, net</b>	<b>(5,331,912)</b>	<b>1,525,427</b>	<b>747,789</b>	<b>(3,058,696)</b>

OJSC Lenenergo

Notes to the consolidated financial statements (continued)

22. Income tax (continued)

	31 December 2009	Movement during 2010 recognized in		31 December 2010
		Equity	Profit or loss for the period	
<i>Tax effect of deferred tax assets:</i>				
Impairment provision for accounts receivable	139,127	–	50,924	190,051
Inventory impairment provision	29,773	–	(11,145)	18,628
Foreign exchange differences on swapped loan	229,771	–	(229,771)	–
Post-employee benefits liability	58,907	–	11,355	70,262
Employee-related accruals	31,549	–	1,514	33,063
Impairment of intangible assets	27,800	–	7,472	35,272
Others	78,847	–	22,335	101,182
<b>Deferred tax assets, total</b>	<b>595,774</b>	<b>–</b>	<b>(147,316)</b>	<b>448,458</b>
<i>Tax effect of deferred tax liabilities:</i>				
Property, plant and equipment	(5,616,540)	–	(134,564)	(5,751,104)
Revaluation of available-for-sale investments	(28,257)	74,332	(42,191)	3,884
Discounting of long-term trade accounts payable	(4,353)	–	(4,780)	(9,133)
Revaluation of swap to fair value	(215,167)	–	215,167	–
Discounting of bonds issued	(4,892)	–	2,115	(2,777)
Deferred expenses	(9,658)	–	(11,582)	(21,240)
<b>Deferred tax liabilities, total</b>	<b>(5,878,867)</b>	<b>74,332</b>	<b>24,165</b>	<b>(5,780,370)</b>
<b>Total deferred tax liabilities, net</b>	<b>(5,283,093)</b>	<b>74,332</b>	<b>(123,151)</b>	<b>(5,331,912)</b>

23. Earnings per share

	31 December 2011	31 December 2010
Weighted average number of outstanding ordinary shares (thousands)	926,022	926,022
Weighted average number of outstanding preference shares (thousands)	93,264	93,264
Net (loss)/profit attributable to equity holders	(950,511)	4,746,691
- attributable to holders of ordinary shares	(863,540)	4,312,370
- attributable to holders of preference shares	(86,971)	434,321
<b>(Loss)/earnings per ordinary share – basic and diluted (Rubles)</b>	<b>(0.93)</b>	4.66
<b>(Loss)/earnings per preference share – basic and diluted (Rubles)</b>	<b>(0.93)</b>	4.66



# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 24. Commitments and contingencies

#### Operating lease commitments

Operating lease commitments mainly relate to contractual obligations under long-term lease agreements for office premises and land plots under Group's power lines and equipment. These non-cancellable leases have terms between 5 and 49 years and contain renewal option. Rent expenses for 2011 in the amount of 471,637 (2010: 504,015) were recognized within income statement (Note 19).

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2011	2010
Within one year	304,389	373,423
After one year but not more than five years	630,723	1,181,298
More than five years	570,376	396,106
<b>Total</b>	<b>1,505,488</b>	<b>1,950,827</b>

#### Commitments to purchase property, plant and equipment

Future capital expenditures under the signed contracts amount to 15,671,449 as at 31 December 2011 (31 December 2010: 13,657,959).

As at 31 December 2011 the Group provided the following guarantees for the loan 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	10,380

#### 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, 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.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

**24. Commitments and contingencies (continued)****Operating environment of the Group**

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While the management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

**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.

As at 31 December 2011 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 2010 the tax authorities performed a tax field audit of the Group covering the period from 1 January 2007 to 31 December 2008. As a result no significant incompliances with tax legislation were identified.

**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)

### 24. Commitments and contingencies (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 a 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 apart from those that were provided (Note 17).

### 25. 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 balances outstanding as at 31 December 2011 and 2010 with the following related parties.

#### Transactions with MRSK-Holding and entities under MRSK-Holding control

	31 December 2011	31 December 2010
<i>Accounts receivable, including:</i>		
Advances given	13	516
OJSC NW EMK	13	516
Other receivables	33	–
MRSK-Holding	33	–
<i>Accounts payable, including</i>		
Trade accounts payable	4,813	5,987
MRSK-Holding	4,813	5,664
OJSC EnergoUchet	–	323
Other accounts payable	–	1,633
OJSC NW EMK	–	1,633
	<b>2011</b>	<b>2010</b>
Consulting, legal and audit services	<b>81,583</b>	96,000
MRSK-Holding	<b>81,583</b>	96,000
Dividends received		
OJSC NW EMK	–	4,134

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 25. Related party transactions (continued)

#### Transactions with other related parties

##### *Non-government pension fund Electroenergetiki*

The outstanding balances with NPF Electroenergetiki were as follows:

	31 December 2011	31 December 2010
Other accounts receivable	122,820	118,482

##### *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, which is represented by short-term and termination employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement, was as follows:

	2011	2010
Short-term employee benefits	56,947	59,751
Termination benefits	28,323	47,123
<b>Total</b>	<b>85,270</b>	<b>106,874</b>

#### Transactions with state-controlled entities

In the course of its operating activities the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable, in other cases revenues and purchases are measured at normal market prices.

### 26. Segment information

The Group operates in one industry segment, being the provision of electricity transmission services and technological connection to the electricity grids 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 2011 and 2010 are presented in the consolidated income statement and the consolidated statement of financial position, respectively.

An analysis of revenue by service type is disclosed in Note 18.

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 disclosed in Note 18 that accounted for greater than 10% of its revenue during the years ended 31 December 2011 and 2010.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 27. Financial risk management

As at 31 December 2011 the Group's major financial liabilities comprise bank loans, bonds, finance leases and trade payables. 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.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The exposure of the Group to these and other financial risks is disclosed below.

#### 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 8.

The Group's revenue from two largest customers OJSC PSK and LLC Energia-Holding is disclosed in Note 18.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments, 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 of a shortage of funds using a recurring liquidity planning tool. With the help of this tool, the Group considers the maturity of both its financial assets and liabilities 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 loans, bonds, preference shares and finance leases.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 and 2010 based on contractual undiscounted payments:

<b>As at 31 December 2011</b>	<b>1 year</b>	<b>2 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>
Bonds issued	6,247,719	–	–	–
Interest-bearing loans	782,299	3,632,260	20,006,366	–
Trade and other accounts payable	6,430,355	1,800	104,201	–
Other financial obligations	457,772	208,066	44,630	–
<b>Total</b>	<b>13,918,145</b>	<b>3,842,126</b>	<b>20,155,197</b>	–

  

<b>As at 31 December 2010</b>	<b>1 year</b>	<b>2 years</b>	<b>3–5 years</b>	<b>Over 5 years</b>
Bonds issued	495,439	6,247,719	–	–
Interest-bearing loans	1,663,929	2,513,425	6,116,531	–
Trade and other accounts payable	3,642,055	1,800	106,001	–
Other financial obligations	767,450	509,029	154,992	–
<b>Total</b>	<b>6,568,873</b>	<b>9,271,973</b>	<b>6,377,524</b>	–

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 27. Financial risk management (continued)

#### Fair values

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

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	7,108,538	7,108,538	653,068	653,068
Available-for-sale investments	26,700	26,700	30,000	30,000
Accounts receivable	991,043	991,043	1,493,998	1,493,998
Obligations under finance leases	(586,643)	(586,643)	(1,143,176)	(1,143,176)
Short-term part of borrowings	(5,997,602)	(6,102,000)	(1,000,000)	(1,000,000)
Long-term fixed rate borrowings	(20,800,000)	(20,291,149)	(13,663,600)	(13,547,716)
Trade and other payables	(6,436,021)	(6,436,021)	(3,624,382)	(3,624,382)
Interest payable on borrowings	(193,141)	(193,141)	(171,790)	(171,790)

The following methods and assumptions were used to estimate the fair values:

Cash, loans and receivables, interest payable and short-term borrowings approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of available-for-sale investment was determined using valuation techniques.

The fair value of obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of borrowings is calculated by discounting the expected future cash flows at interest rates determined with regard to the Group's creditworthiness. As at 31 December 2011, the carrying amounts of borrowings are not materially different from their calculated fair values.

#### Fair value hierarchy

As at 31 December 2011 and 2010 the Group held the following financial instruments measured at fair value:

	31 December 2011	Level 1	Level 2	Level 3
	Available-for-sale investments	26,700	-	-
	31 December 2010	Level 1	Level 2	Level 3
	Available-for-sale investments	30,000	-	-

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

For financial instruments for which quoted prices in an active market are available, the fair value is determined directly from those quoted market prices (Level 1).

## OJSC Lenenergo

### Notes to the consolidated financial statements (continued)

#### 27. Financial risk management (continued)

##### Fair value hierarchy (continued)

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques or models, based wherever possible on assumption supported by observable market prices or rate prevailing at the reporting date (Level 2).

For other financial instruments the fair value cannot be obtained directly from quoted market prices, or indirectly using valuation techniques based on observable market data (Level 3). For these instruments the fair value is estimated using cost approach.

During the year ended 31 December 2011 and 2010 there were no transfer within Level 2 of the fair value measurements.

During the year ended 31 December 2010 the transfer out of Level 1 and Level 3 in the amount of 189,480 and 303,000 resulted from the sale of investment in OJSC FSK UES and OJSC PSK.

##### Reconciliation of fair value measurements of Level 1 and Level 3 financial instruments

	Level 1		Level 3		Total
	OJSC FSK	OJSC PSK	OJSC NW	EMK Other	
<b>1 January 2010</b>	189,480	303,000	33,300	133	<b>525,913</b>
Unrealised gains (losses) recognised in other comprehensive income	(393)	165,000	(3,400)	–	<b>161,207</b>
Sales	(189,087)	(468,000)	–	(33)	<b>(657,120)</b>
<b>31 December 2010</b>	–	–	29,900	100	<b>30,000</b>
Unrealised losses recognised in other comprehensive income	–	–	(3,300)	–	<b>(3,300)</b>
<b>31 December 2011</b>	–	–	<b>26,600</b>	<b>100</b>	<b>26,700</b>

##### Capital risk management

Capital includes ordinary and preference shares attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ending 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio up to 80%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

# OJSC Lenenergo

## Notes to the consolidated financial statements (continued)

### 27. Financial risk management (continued)

#### Capital risk management (continued)

	31 December 2011	31 December 2010
Interest-bearing loans and borrowings (Note 13)	26,797,602	14,547,716
Trade and other payables (Note 16)	7,287,619	4,216,838
Less cash and cash equivalents (Note 7)	(7,108,538)	(653,068)
Net debt	26,976,683	18,111,486
Ordinary shares (Note 12)	4,866,115	4,866,115
Preference shares (Note 12)	625,603	625,603
Total capital	5,491,718	5,491,718
<b>Capital and net debt</b>	<b>32,468,401</b>	<b>23,603,204</b>
Gearing ratio	83%	77%

As at 31 December 2011 the Group has been in compliance with share capital requirements established by the legislation of Russian Federation.

#### Foreign exchange and interest rate risks

The Group operates in the Russian Federation. The majority of the Group's purchases and borrowings are denominated in Russian Rubles.

### 28. Events after the reporting period

In January 2012 the Group fully met its coupon obligations on the 2nd bond issue under the 10th coupon at 8.54% p.a. in the total amount of 127,740 as well as repayment of par value in the amount of 3,000,000.

On 22 February 2012 the Group commenced an open placement of 273,023,689 ordinary shares at par value of RUR 1. The Group expects to raise 3,975,225 in cash and by contribution of power equipment.

On 21 March 2012 the Group entered into agreement with Vnesheconombank for limited credit line of 4,700,000 maturing in March 2020 and bearing at floating interest rate Mos Prime + 2.83%.

In April 2012 the Group entered into agreement with OJSC Sberbank for credit line of 3,000,000 maturing in April 2014 and bearing the interest of 9.99%.