

Open joint stock company Lenenergo

Consolidated financial statements
prepared in accordance with
International Financial Reporting Standards

For the year ended 31 December 2012

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Consolidated financial statements

For the year ended 31 December 2012

Contents

Independent auditors' report.....	1
Consolidated financial statements	
Consolidated statement of financial position.....	3
Consolidated income statement.....	4
Consolidated statement of comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements.....	9



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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 2012, 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 consolidated financial statements

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

Auditors' responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all materials respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

10 April 2013
St. Petersburg, Russia

OJSC LENENERGO
 Consolidated statement of financial position
 as at 31 December 2012
 (in thousands of Russian Rubles)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets	3	799,687	714,589
Property, plant and equipment	4	86,414,872	82,518,717
Advances for construction of property, plant and equipment	5	508,158	854,343
Available-for-sale investments		100	26,700
Other non-current assets	6	434,067	843,179
Total non-current assets		88,156,884	84,957,528
Current assets			
Cash and cash equivalents	7	3,513,622	7,108,538
Short-term investments	8	2,266,000	-
Accounts receivable	9	2,077,119	991,044
Inventories	10	279,184	289,605
Income tax prepayments		-	100,458
Other current assets	11	3,099,798	3,503,848
Total current assets		11,235,723	11,993,493
Total assets		99,392,607	96,951,021
Equity and liabilities			
Equity attributable to equity holders of the parent			
Ordinary shares	13	5,075,155	4,866,115
Preference shares	13	625,603	625,603
Share premium		8,303,849	5,548,880
Other reserves	13	20,167,762	22,347,822
Retained earnings		9,340,314	9,115,941
		43,512,683	42,504,361
Non-controlling interest		28,994	30,777
Total equity		43,541,677	42,535,138
Non-current liabilities			
Long-term borrowings, net of current portion	14	20,637,699	21,028,081
Deferred tax liabilities		2,370,096	3,058,696
Post-employment benefits liabilities	15	489,460	410,041
Other non-current liabilities	16	1,786,304	4,884,306
Total non-current liabilities		25,283,559	29,381,124
Current liabilities			
Current portion of long-term borrowings	14	7,153,301	6,549,305
Trade and other payables	17	8,646,083	7,094,478
Provisions	18	177,095	121,771
Income tax payable		433,615	8,889
Advances received from customers		14,157,277	11,260,316
Total current liabilities		30,567,371	25,034,759
Total liabilities		55,850,930	54,415,883
Total equity and liabilities		99,392,607	96,951,021

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

10 April 2013

OJSC Lenenergo
 Consolidated income statement
 as at 31 December 2012
 (in thousands of Russian Rubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	19	33,134,547	32,256,795
Operating expenses -	20	(30,659,230)	(31,503,143)
Operating profit		2,475,317	753,652
Finance income	21	302,468	61,484
Finance expenses	22	(2,175,395)	(1,659,844)
Profit/(loss) before tax		602,390	(844,708)
Income tax expense	23	(369,523)	(98,568)
Net profit/(loss) for the year		232,867	(943,276)
Attributed to:			
Equity holders		234,650	(950,511)
Non-controlling interest		(1,783)	7,235
Earnings/(loss) per ordinary share – basic and diluted (Russian Rubles)	24	0.12	(0.93)
Earnings/(loss) per preference share – basic and diluted (Rubles)	24	0.12	(0.93)

10 April 2013

OJSC Lenenergo
Consolidated statement of comprehensive income
as at 31 December 2012
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Net profit/(loss)		232,867	(943,276)
Other comprehensive (loss)/ income			
Property, plant and equipment			
Impairment loss	4	(2,583,460)	(7,623,835)
Income tax effect		516,692	1,524,767
		(2,066,768)	(6,099,068)
Available-for-sale investments			
Unrealized (loss)/gain		-	(3,300)
Income tax effect		-	660
		-	(2,640)
Reclassification of unrealized gain reserve on available-for-sale financial assets to income statement		22,717	-
Income tax effect		(4,544)	-
		18,173	-
Other comprehensive loss, net of tax		(2,048,595)	(6,101,708)
Attributed to:			
Equity holders		(2,048,595)	(6,101,708)
Non-controlling interest		-	-
Total comprehensive loss, net of tax		(1,815,728)	(7,044,984)
Attributed to:			
Equity holders		(1,813,945)	(7,052,219)
Non-controlling interest		(1,783)	7,235

10 April 2013

OJSC Lenenergo
Consolidated statement of changes in equity
as at 31 December 2012
(in thousands of Russian Rubles)

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Ordinary shares (Note 13)	Preference shares	Share premium (Note 13)	Other reserves (Note 13)	Retained earnings	Total		
As at 1 January 2011	4,866,115	625,603	5,548,880	28,659,394	10,237,449	49,937,441	23,542	49,960,983
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 loss	–	–	–	(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)
As at 31 December 2011	4,866,115	625,603	5,548,880	22,347,822	9,115,941	42,504,361	30,777	42,535,138
Profit for the period	–	–	–	–	234,650	234,650	(1,783)	232,867
Other comprehensive loss, net of tax	–	–	–	(2,048,595)	–	(2,048,595)	–	(2,048,595)
Total comprehensive loss	–	–	–	(2,048,595)	234,650	(1,813,945)	(1,783)	(1,815,728)
Ordinary shares issued	209,040	–	2,754,969	–	–	2,964,009	–	2,964,009
Release of asset revaluation reserve on disposed property plant and equipment items, net of tax	–	–	–	(131,465)	131,465	–	–	–
Dividends for 2011	–	–	–	–	(141,742)	(141,742)	–	(141,742)
As at 31 December 2012	5,075,155	625,603	8,303,849	20,167,762	9,340,314	43,512,683	28,994	43,541,677

10 April 2013

OJSC Lenenergo
Consolidated statement of cash flows
for the year ended 31 December 2012
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Profit/ (loss) before tax		602,390	(844,708)
Adjustments to reconcile profit/(loss) before tax and net cash flow from operating activities:			
Loss on disposal of property, plant and equipment and intangible assets		259,103	360,781
Finance income	21	(302,468)	(61,484)
Depreciation of property, plant and equipment	4, 20	4,216,055	4,812,663
Amortization of intangible assets	3, 20	87,344	114,747
Impairment loss on property, plant and equipment	20	3,600,893	4,255,798
(Reversal of)/ impairment of intangible asset	20	(129,110)	148,440
Loss on termination of lease contracts	14	17,860	–
Finance cost	22	2,175,395	1,659,844
Net movement in the provision for impairment of receivables	12	213,796	505,329
Impairment loss on finance leases	20	61,364	122,558
Non-cash settlement of technological connection revenue		(747,423)	(3,661,767)
Provision for impairment of inventories	20	28,918	15,393
Net expense for the defined benefit plan	15	116,033	98,935
Net movements in other provisions	18	115,945	86,560
Operating cash flows before changes in working capital		10,316,095	7,613,089
(Decrease)/ increase in trade and other payables		(9,423)	4,074,509
Increase/ (decrease) in short-term advances received		2,896,961	(4,314,711)
(Decrease)/ increase in other non-current liabilities		(3,107,275)	2,759,575
(Increase)/ decrease in accounts receivable		(1,286,205)	346,281
(Increase)/ decrease in inventories		(18,497)	147,781
Decrease/ (increase) in other current assets		907,126	(271,721)
Cash generated from operations		9,698,782	10,354,803
Interest paid		(2,066,840)	(1,388,378)
Income tax paid		(120,791)	(982,139)
Pension benefits paid	15	(36,614)	(40,206)
Interest received		302,468	61,484
Net cash generated from operating activities		7,777,005	8,005,564

OJSC Lenenergo
Consolidated statement of cash flows (continued)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flow from investment activities			
Purchases of property, plant and equipment		(11,274,948)	(11,789,046)
Purchases of intangible assets		(76,332)	(119,613)
Proceeds from disposal of property, plant and equipment		2,039	1,480
Cash placed on short-term deposits		(2,266,000)	-
Net cash used in investment activities		(13,615,241)	(11,907,179)
Cash flow from financing activities			
Long-term borrowings received		11,237,586	15,743,400
Issue and transaction costs on bonds and loans		(55,240)	-
Proceeds from share issue		2,043,618	-
Repayment of long-term borrowings before maturity		(4,393,000)	(1,225,000)
Repayment of long-term borrowings		-	(1,280,000)
Repayment of short-term borrowings		(6,000,000)	(1,000,000)
Dividends paid	13	(141,742)	(380,861)
Repayment of finance lease liabilities		(447,902)	(1,500,454)
Total cash provided by financing activities		2,243,320	10,357,085
Net (decrease)/ increase in cash and cash equivalents		(3,594,916)	6,455,470
Cash and cash equivalents at the beginning of the year	7	7,108,538	653,068
Cash and cash equivalents at the end of the year	7	3,513,622	7,108,538

10 April 2013

OJSC Lenenergo
Notes to the consolidated financial statements
for the year ended 31 December 2012
(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 2012 and 2011 the Group comprised the Company 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 consolidated financial statements of the Good for the year ended 31 December 2012 were authorised for issue by General Director and Chief Accountant on 10 April 2013.

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 2012 the total number of employees was 6,182 (31 December 2011: 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 2012 owned 49.36% (31 December 2011: 45.71%) of the Group’s share capital, including 53.41% (31 December 2011: 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 generated a net profit for 2012 of 232,867 (2011: loss of: 943,276), including 234,650 attributed to equity holders of the parent (2011: loss of 950,511). As at 31 December 2012 the Group’s current liabilities exceeded its current assets by 19,331,648 (31 December 2011: 13,041,266). In 2012 the Group generated cash flow from operating activities of 7,777,005 (2011: 8,005,564).

In 2012 the Group experienced a decline in most of liquidity ratios. The current ratio, being current assets divided by current liabilities, decreased from 0.48 as at 31 December 2011 to 0.37 as at 31 December 2012; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, decreased from 0.32 as at 31 December 2011 to 0.18 as at 31 December 2012.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

1. Corporate information (continued)

Financial position and liquidity (continued)

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

- 1) To deliver more reliable power supply to consumers and avoid large-scale emergencies in the future, a comprehensive 6-110 kW cable line upgrade program has been developed and incorporated in the investment program.
- 2) The Group is taking measures to reduce liabilities accrued under technological connection agreements.
- 3) To improve operating efficiency, the Group is implementing cost saving programs:
 - Operations are designed to meet the target set by the Russian Ministry of Energy to achieve a 10% reduction of the present value of operating costs for 2011-2013 compared with 2010, as instructed by the Russian Government.
 - An energy saving and energy efficiency enhancement program is developed and implemented on an annual basis.
 - Bids are invited to reduce the per unit purchase cost of goods, work and services by at least 10% year-on-year over the next 3 years in real terms (based on the 2010 prices), as instructed by the Russian President.

Therefore the consolidated financial statements are prepared based on the assumption that the Group will continue as a going concern in the foreseeable future, and its assets will be recovered and liabilities met as they become due.

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 2012. 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 International Financial Reporting Standards (IFRS).

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 as issued by the International Accounting Standards Board (IASB).

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

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

2.1 Basis of preparation (continued)

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.

2.2 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 2012.

- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and had no effect on the Group's financial position, performance or its disclosures.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

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

2.2 Changes in accounting policy and disclosures (continued)

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no effect on the Group's financial position, performance or its disclosures.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user 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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

OJSC Lenenergo

Notes to the consolidated financial statements (continued)

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 disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standard / Interpretation	Essence of amendments	Effective date
IAS 1 <i>Presentation of Items of Other Comprehensive Income - Amendments to IAS 1</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 (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). 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 19 <i>Employee Benefits (Revised)</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 28 <i>Investments in Associates and Joint Ventures</i> (as revised in 2011)	As a consequence of the new IFRS 11 <i>Joint Arrangements</i> , and IFRS 12 <i>Disclosure of Interests in Other Entities</i> , IAS 28 <i>Investments in Associates</i> 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 into joint ventures.	Effective for annual periods beginning on or after 1 January 2013
IAS 32 <i>Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32</i>	These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance	Effective for annual periods beginning on or after 1 January 2014
IFRS 1 <i>Government Loans – Amendments to IFRS 1</i>	These amendments require first-time adopters to apply the requirements of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> , prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment will have no impact on the Group's financial position or performance.	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 7 <i>Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7</i>	These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 <i>Financial Instruments: Presentation</i> . The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance.	Effective for annual periods beginning on or after 1 January 2013
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. The standard was initially effective for annual periods beginning on or after 1 January 2013, but <i>Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> , issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 the final standard including all phases is issued.	Effective for annual periods beginning on or after 1 January 2015
IFRS 10 <i>Consolidated Financial Statements</i> IAS 27 <i>Separate 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 addresses 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 the 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

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 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. A number of new disclosures are also required, but 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
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.	Effective for annual periods beginning on or after 1 January 2013

Annual Improvements May 2012

These improvements will not have an impact on the Group's financial position or performance, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

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)

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

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 accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made certain judgments which have 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.

OJSC Lenenergo
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 carries 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 2012. Valuation methodology based on a discounted cash flow model was used, as there is a lack of comparable market data because of the nature of the properties. The key assumptions used to determine the fair value of property, plant and equipment are further explained in 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 cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The Group consists of 4 cash generating units: Saint-Peterburg, Leningrad region, CJSC Kurortenergo and CJSC Tsarskoselskaya Energeticheskaya Compania. 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 units (Note 4).

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, 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. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

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 2012 impairment provision for accounts receivable and advances given was created in the amount of 880,439 (as at 31 December 2011: 792,151). Further details are disclosed in Note 12.

OJSC Lenenergo
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)

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, 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.

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 2012 was 489,460 (31 December 2011: 410,041). Further details are disclosed in Note 15.

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.

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

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-related costs are expensed incurred 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.

If the business combination is achieved in stages, the previously held equity interest is remeasured to its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 the fair value of the net assets acquired in excess of the aggregate consideration transferred, the gain 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation 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 the 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.

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)

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

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

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 are 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. In 2012 the Group recognized reversal of impairment with respect to one of the above power substations of 129,110 (Note 3).

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

<u>Asset group</u>	<u>Useful life</u>
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 any subsequent accumulated depreciation and subsequent impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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)

Property, plant and equipment (continued)

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation deficit 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.

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 acquisitions of social assets are not capitalized as the Group does not expect to receive any future economic benefits from them.

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

Asset group	Useful life
Production premises	40-50
Power lines	30-40
Equipment, power equipment, sub-stations	25-40
Other	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. The arrangement is assessed for 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 or assets, even if that right is not explicitly specified in an arrangement.

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)

Leases (continued)

Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item to the Group, 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.

A leased asset is 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 operating 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. Recoverable amount 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. When 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 companies 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.

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)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine 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.

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 market place (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 2012 the Group's financial assets include cash, trade and other receivables, equity investments.

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 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 net changes in fair value recognised in finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) 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 intention 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.

The Group did not have any financial assets at fair value through profit or loss during the years ended 31 December 2012 and 2011.

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 for loans and in operating expenses for receivables.

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 assets (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 2012 and 2011.

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 that are intended to be held for an indefinite period of time and that may be sold 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 finance 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 the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category 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.

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 assets (continued)

As at 31 December 2012 the Group holds an available-for-sale investment with the fair value of 100 (31 December 2011: 26,700).

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 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses 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 statement of comprehensive income. 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 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 other comprehensive income – 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.

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)

Impairment of financial assets (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 statement of comprehensive income, 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, net of directly attributable transaction costs.

As at 31 December 2012 the Group's financial liabilities include trade and other payables (Note 17) and borrowings (Note 14).

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.

Financial liabilities designated upon initial recognition at fair value through profit and loss are designated at the initial date of recognition only if criteria of IAS 39 are satisfied. As of 31 December 2012 and 2011 and for the years then ended the Group has not designated any financial liability as at fair value through profit or loss.

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)

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 fees 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 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.

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 28.

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)

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 2012 and 2011 the Group recognized an impairment provision of 144,236 and 127,721 respectively.

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.

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 income statement.

The Group also contributes to defined benefit 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.

The Group applies a simplified accounting treatment to other long-term benefits that include funeral and jubilee 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.

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)

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.

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 spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the profit or loss. 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 2012 were 30.3727 Rubles for 1 USD and 40.2286 Rubles for 1 Euro (31 December 2011: 32.1961 Rubles for 1 USD and 41.6714 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, regardless of when payment is being made. 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 19). 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.

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)

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 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 21).

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve dividends.

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 between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

- when the deferred 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;
- 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.

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)

Taxes (continued)

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 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 change. The adjustment is 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.

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.

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)

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 13, 24). 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 comparative 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:

- Interest accrued on bank loans and coupon bonds of 193,141 as at 31 December 2011 is included within Borrowings, while previously reported within Trade and Other Payables (Note 17).

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	Certifi- cates	Access right	Goodwill	Total
Cost					
As at 1 January 2011	240,649	47,626	624,000	312,833	1,225,108
Additions for the period	106,468	–	304,922	–	411,390
Disposal for the period	(156,709)	(14,609)	–	–	(171,318)
As at 31 December 2011	190,408	33,017	928,922	312,833	1,465,180
Additions for the period	43,332	–	–	–	43,332
Disposal for the period	(9,520)	(17,263)	–	–	(26,783)
As at 31 December 2012	224,220	15,754	928,922	312,833	1,481,729
Accumulated amortization and impairment					
As at 1 January 2011	(88,577)	(16,094)	(206,420)	(312,833)	(623,924)
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)
As at 31 December 2011	(44,937)	(17,291)	(375,530)	(312,833)	(750,591)
Charge for the period	(58,888)	(9,911)	(18,545)	–	(87,344)
Disposal for the period	9,520	17,263	–	–	26,783
Reverse of impairment	–	–	129,110	–	129,110
As at 31 December 2012	(94,305)	(9,939)	(264,965)	(312,833)	(682,042)
Net book value as at 31 December 2011	145,471	15,726	553,392	–	714,589
Net book value as at 31 December 2012	129,915	5,815	663,957	–	799,687

Certificates are acquired for the purposes of conformity with the electricity quality standards. The new certificates are valid until 2014. The Group believes that it will be able to renew the certificates upon expiration without incurring substantial costs.

As at 31 December 2012 the Group performed an impairment analysis of the intangible assets and recognized in the income statement the reversal of impairment loss of 129,110 (2011: impairment of 148,440).

OJSC Lenenergo
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
Cost						
As at 1 January 2011	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
As at 1 January 2012	24,336,508	52,252,300	32,027,180	6,050,102	14,628,640	129,294,730
Additions	–	–	210,133	–	13,488,545	13,698,678
Contribution to share capital (Note 13)	164,998	29,925	585,206	140,262	–	920,391
Revaluation	(2,072,226)	(16,011,771)	(3,372,415)	73,495	1,271,719	(20,111,198)
Disposals	(5,412)	(234,058)	(43,082)	(71,353)	(140,116)	(494,021)
Transfer	5,511,060	2,317,260	5,535,885	928,710	(14,292,915)	–
As at 31 December 2012	27,934,928	38,353,656	34,942,907	7,121,216	14,955,873	123,308,580
Accumulated depreciation and impairment						
As at 1 January 2011	(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 14)	–	–	(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)
As at 1 January 2012	(3,661,605)	(31,235,776)	(7,722,408)	(2,264,085)	(1,892,139)	(46,776,013)
Charge for the year	(810,138)	(1,687,085)	(1,252,569)	(466,263)	–	(4,216,055)
Revaluation	1,430,606	9,783,862	2,705,487	6,890	–	13,926,845
Impairment loss on initial recognition of finance leases (Note 14)	–	–	(61,364)	–	–	(61,364)
Disposals	1,993	180,752	21,509	28,625	–	232,879
As at 31 December 2012	(3,039,144)	(22,958,247)	(6,309,345)	(2,694,833)	(1,892,139)	(36,893,708)
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
Net book value as at 31 December 2012	24,895,784	15,395,409	28,633,562	4,426,383	13,063,734	86,414,872

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

4. Property, plant and equipment (continued)

Revaluation

Property, plant and equipment were revalued to fair value as at 31 December 2012. 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 86,414,872. 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:

	2013	2014-2015	2016-2017	2018-2024	2025-2030
Profitability rate on capital invested, %	1.00	1.00	1.00-11.00	11.00	11.00
Transmission volume increase, %	0.75	(4.10) - 1.96	1.95	(0.67) -0.83	0.83
Normal network technological losses, %	10.55	10.56	10.56	10.56	10.56
Weighted average cost of capital (WACC), %	9.97	9.97	9.97	9.97	9.97
Index for the operating expenses effectiveness, %	3.00	3.00	3.00	2.38-2.91	1.85-2.29

Profitability rate on capital invested – The Group accounted for decrease in cost of capital announced by authorities of St. Petersburg and Leningrad region in July 2012. If return on profitability rate on capital invested increases by 1%, the recoverable amount of CGU increases by 17%.

Transmission volume increase – The Group 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 20%.

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 reduce CGU recoverable amount by 14%.

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 16%.

Index for the operating expenses effectiveness - The Group considered the increase in index for the operating expenses effectiveness, which is expected to cause future decrease in transmission tariffs. Increase in performance index by 1% would result in increase of the recoverable amount of CGU by 2%.

Cash flows after 2030 are projected using the 3% long-term average *inflation rate* in Russia. Decrease in inflation rate by 1% would result in the reduction of CGU recoverable amount by 5%. Generally, change in the assumption used for long-term average inflation rate is accompanied by a directionally similar change in the assumption used for WACC.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

4. Property, plant and equipment (continued)

Revaluation (continued)

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Decrease in fair value recognized in the income statement	(393,940)	(2,183,877)	(2,271,081)	(122,331)	1,370,336	(3,600,893)
Decrease in fair value recognized within equity	(247,680)	(4,044,032)	1,604,153	202,716	(98,617)	(2,583,460)
Total	(641,620)	(6,227,909)	(666,928)	80,385	1,271,719	(6,184,353)

Property, plant and equipment under finance lease

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

	31 December 2012	31 December 2011
Cost	414,353	4,600,824
Accumulated depreciation	(59,287)	(1,111,219)
Net book value	355,066	3,489,605

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

Acquisitions under finance lease of 210,133 (2011: 712,366) were excluded from the consolidated statement of 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 508,158 paid to construction contractors (31 December 2011: 854,343) are stated net of an impairment provision of 199,650 (31 December 2011: 202,582). Movements in the provision for impairment of advances for construction are disclosed in Note 12.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

6. Other non-current assets

	31 December 2012	31 December 2011
VAT recoverable after more than 12 months	275,540	734,486
Long-term advances	83,819	30,849
Security deposit	71,721	71,721
Other non-current assets	2,987	6,123
Total	434,067	843,179

7. Cash and cash equivalents

	31 December 2012	31 December 2011
Bank deposits reclaimable on demand – Rubles	3,311,829	5,651,174
Bank accounts and cash in hand – Rubles	201,793	1,457,364
Total	3,513,622	7,108,538

As at 31 December 2012 the Group had open deposit agreements with original maturity of less than 3 months placed with a number of banks bearing an interest of 2.1-9.5% p.a. if the Group maintains minimum cash balances. Interest income of 232,351 for the year ended 31 December 2012 is included in finance income.

8. Short-term investments

Short-term investments of 2,266,000 are represented by deposits placed with OJSC Bank Tavricheskiy bearing an interest of 7.5%-11.0% p.a. and original maturity ranging from 4 to 12 months. Interest income of 70,117 for the year ended 31 December 2012 is included in finance income.

9. Accounts receivable

	31 December 2012	31 December 2011
Trade receivables net of impairment provision of 479,172 (2011: 386,263)	1,727,469	868,593
Other accounts receivable net of impairment provision of 28,361 (2011: 25,138)	349,650	122,451
Total	2,077,119	991,044

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. 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 12.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

9. Accounts receivable (continued)

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.

As at 31 December 2012 and 2011, the ageing analysis of trade receivables is as follows:

	Receivables from transmission	Receivables from technical connection	Other receivables	Total
31 December 2012				
Neither past due nor impaired	1,014,419	9,054	143,149	1,166,622
Past due:				
0-30 days	3,984	318,636	68,002	390,622
30-90 days	28,765	2,546	84,967	116,278
90-180 days	–	295,794	33,639	329,433
180-365 days	–	52,832	19,893	72,725
more than 1 year	–	1,439	–	1,439
Total	1,047,168	680,301	349,650	2,077,119
31 December 2011				
Neither past due nor impaired	574,549	87,469	122,451	784,469
Past due:				
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
Total	606,535	262,058	122,451	991,044

As at 31 December 2012 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.

10. Inventories, net of impairment

	31 December 2012	31 December 2011
Materials (at cost)	136,707	147,225
Spare parts (at cost)	70,880	86,232
Uniform (at cost)	29,682	24,428
Tools (at cost)	19,262	11,591
Other inventories (at cost)	22,653	20,129
Total	279,184	289,605

As at 31 December 2012 inventories are stated at cost net of impairment of 144,236 (as at 31 December 2011: 127,721).

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

11. Other current assets

	31 December 2012	31 December 2011
VAT receivable net of impairment provision of 110,533 (2011: 102,693)	2,941,628	2,945,239
Prepayments and advances given to suppliers net of impairment provision of 62,723 (2011: 75,475)	146,400	552,201
Taxes receivable other than on income	7,766	6,408
Other current assets	4,004	–
Total	3,099,798	3,503,848

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 12.

12. 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
As at 1 January 2011	383,336	89,535	27,195	420,436	35,834	956,336
Charge for the year	222,796	39,439	53,413	344,690	9,688	670,026
Released	(55,972)	(14,223)	(2,813)	(71,849)	(19,840)	(164,697)
Utilized	(163,897)	(12,058)	(2,320)	(490,695)	(544)	(669,514)
As at 31 December 2011	386,263	102,693	75,475	202,582	25,138	792,151
Charge for the year	167,305	12,086	35,521	98,509	22,386	335,807
Released	(24,354)	(4,246)	(37,325)	(46,774)	(9,312)	(122,011)
Utilized	(50,042)	–	(10,948)	(54,667)	(9,851)	(125,508)
As at 31 December 2012	479,172	110,533	62,723	199,650	28,361	880,439

13. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Ordinary shares	1,135,061,313	926,021,679	5,075,155	4,866,115
Preference shares	93,264,311	93,264,311	625,603	625,603
Total	1,228,325,624	1,019,285,990	5,700,758	5,491,718

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.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

13. Equity (continued)

Share capital (continued)

In 2012 the Group completed a private placement of 209,039,634 ordinary shares. Total additional capital raised comprised 2,964,009. Additional shares were subscribed to by OJSC MRSK Holding and individuals (insignificant part) that paid 2,043,618 in cash altogether and by the City of St. Petersburg that contributed property, plant and equipment with fair value of 920,391.

The excess of 2,754,969 of the fair value of the above mentioned contribution of 2,964,009 over par value of issued shares of 209,040 was recognized within share premium.

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 24).

Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by the statutory accounting rules. Statutory net profit of the Company and its subsidiaries as at 31 December 2012 amounted to 1,443,730 (as at 31 December 2011: 1,696,507). Retained earnings under statutory accounting rules as at 31 December 2012 amounted to 13,161,125 (as at 31 December 2011: 10,989,721).

Dividend declared and paid

In 2012 dividends for the year ended 31 December 2011 were declared in the amount of 1.5198 Rubles per preference share (nil per ordinary share). The total amount of dividends accrued in 2012 for the year ended 31 December 2011 was 141,742 (31 December 2010: 380,861). Dividends for the year ended 31 December 2012 were not declared by the date of report.

OJSC Lenenergo

Notes to the consolidated financial statements (continued)

13. Equity (continued)

Other reserves

	Asset revaluation reserve	Net unrealised gains on available-for-sale investments	Total
As at 1 January 2011	28,674,927	(15,533)	28,659,394
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)
As at 31 December 2011	22,365,995	(18,173)	22,347,822
Revaluation of property, plant and equipment, net of tax effect of 516,692	(2,066,768)	-	(2,066,768)
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 32,866	(131,465)	-	(131,465)
Reclassification of unrealised loss on available-for-sale investments to the statement of comprehensive income, net of tax effect of 4,544	-	18,173	18,173
As at 31 December 2012	20,167,762	-	20,167,762

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.

14. Borrowings

	Currency	Effective interest rate	Maturity date	31 December 2012	31 December 2011
Bank loans		7.01%-10.11%	2013-2016	24,696,022	20,834,871
Bonds issued by the Group	Rubles				
series 02		8.54%	2012	-	3,108,957
series 03	Rubles	8.02%	2012	-	3,046,915
series 04	Rubles	8.75%	2017	3,041,601	-
Finance lease liabilities	Rubles	14.86% - 32.32%	2013-2015	53,377	586,643
Total borrowings				27,791,000	27,577,386
Less: current portion of bank loans		7.51% - 7.72%	2013	(7,071,080)	(34,871)
Less: current portion of bonds	Rubles			-	-
series 02				-	(3,108,957)
series 03				-	(3,046,915)
series 04		8.75%	2013	(48,900)	-
Less: current portion of finance lease liabilities	Rubles	14.86% - 32.32%	2013	(33,321)	(358,562)
Current portion of long-term borrowings				(7,153,301)	(6,549,305)
Long-term borrowings, net of current portion				20,637,699	21,028,081

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

14. Borrowings (continued)

Bonds

During 2012 the Group fully met its coupon obligations under the 10th coupon of the 2nd and 3rd bond issues in the amount of 127,749 and 119,970, respectively and repaid the principle amounts of 2nd and 3rd bond issues of 3,000,000 each.

In April 2012 the Group placed the 4th issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each with 10 interest-bearing coupons. Payments under each coupon are due on the 182nd day. The interest rate under coupons is set at 8.50% p.a. The bonds mature in April 2017, in 1820 days from the date of placement with the option for early redemption that may be executed within 2 weeks after 21 April 2015.

Loans

In 2012 the Group entered into non-renewable credit line agreements with OJSC Sberbank with the total limit of 4,000,000 bearing interest of 9.09% - 9.99% and maturing in April - May 2014. The Group received 3,853,736 under these agreements and repaid 3,000,000 before maturity.

In December 2012 the Group repaid before maturity 400,000 and 993,000 received under agreements concluded with OJSC Bank VTB Severo-Zapad and OJSC Sberbank in 2011.

In 2012 the Group received several tranches for the total amount of 364,206 under non-renewable credit line agreements with OJSC AKB Svyaz-bank maturing in May 2014 and bearing interest of 8.90%.

In April 2012 the Group entered into non-renewable credit line agreement with VneshEconomBank with the limit of 4,700,000 bearing interest of Mosprime3M+2.83% and maturing in May 2020. As at 31 December 2012 the Group received 4,019,644 under this agreement.

Restriction and covenants

The Group is liable under the agreement with VneshEconomBank whereby the bank may demand early repayment in case of any substantial and surable adverse change in the financial condition or business of the borrower. Under the agreement with VneshEconomBank the Group has to:

- maintain the following annual financial performance ratios (based on IFRS statements):
 - Net debt to EBITDA ratio – maximum 3:1;
 - Net debt to Equity ratio – maximum 2:1;
 - Equity to Total Assets ratio – minimum 0.4:1;
 - EBITDA to Interest paid on borrowings ratio – minimum 5;
- provide the following financial statements:
 - unaudited annual financial statements prepared under Russian accounting rules, forwarded to the tax authorities – on or earlier the 15 April of the year following the reporting year;
 - unaudited quarter financial statements prepared under Russian accounting rules, forwarded to the tax authorities – on or earlier the 15 May, August, November of the reporting year;
 - audited annual financial statements prepared under Russian accounting rules – on or earlier the 31 May of the year following the reporting year;
 - reviewed consolidated interim financial statements under IFRS as of 30 June – on or earlier the 31 October of the reporting year;
 - unaudited annual consolidated financial statements under IFRS – on or earlier the 30 May of the year following the reporting year;
 - audited annual consolidated financial statements under IFRS – on or earlier the 30 June of the year following the reporting year.
- comply with certain restrictions on the restructuring of the Group if not approved by the bank.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

14. Borrowings (continued)

Loans (continued)

Restriction and covenants (continued)

As of 31 December 2012 the Group complied with all restrictions and covenants except for EBITDA to Interest paid on borrowings ratio. The bank has the right to claim any outstanding loan and interest before their respective original maturity dates in case the Group would not eliminate the breach of the above covenant until the submission of the next financial statements on 31 October 2013.

Finance lease liabilities

As at 31 December 2012 the Group entered into lease agreements for electricity transmission equipment which has been delivered to the Group by the reporting date and, therefore, is 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
As at 31 December 2012				
Future minimum lease payments	38,727	23,005	–	61,732
Less: future interest expenses	(5,406)	(2,949)	–	(8,355)
Present value of future minimum lease payments	33,321	20,056	–	53,377
As at 31 December 2011				
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

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

In 2012 the Group's primary lessors were CJSC Rosgazleasing and LLC VTB-Leasing (2011: LLC Goldline and LLC VTB-Leasing).

In October 2012 the Group terminated 11 lease agreements with LLC Goldline and LLC VTB-Leasing and at the same time entered into purchase agreements for leased equipment with them. Lease liabilities under these contracts as of the termination date amounted to 284,215. The loss of 17,860, being the difference between lease liability and final amount of settlement with lessor under new purchase agreements, was recognized within other operating expenses.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

14. Borrowings (continued)

Finance lease liabilities (continued)

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 61,364 (2011: 122,558) was immediately recognized within operating expenses in the income statement for 2012 (Note 20).

The Group had entered into a number of finance leases under which equipment was not received as at 31 December 2011. 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, future interest expense is 11,324. As at 31 December 2011 the Group paid advances of 103,713 under such leases.

15. 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 667,878 for the year ended 31 December 2012 (2011: 615,557).

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.

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 26), 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 2012 there were 6,182 working employees participating in the defined benefit plan of the Group and 1,283 pensioners (31 December 2011: 6,117 and 1,311, respectively).

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

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

15. Post-employment benefit liabilities (continued)

As at 31 December 2012 and 2011 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2012			2011		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Present value of defined benefit obligation	(557,367)	(390,276)	(167,091)	(449,850)	(327,293)	(122,557)
Unrecognized net actuarial gains	6,169	6,169	–	(28,237)	(28,237)	–
Unrecognized past service cost	61,738	61,738	–	68,046	68,046	–
Net pension liability in the statement of financial position	(489,460)	(322,369)	(167,091)	(410,041)	(287,484)	(122,557)

Changes in the present value of defined benefit obligations in 2012 and 2011 were as follows:

	2012			2011		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Net defined benefit obligation as at 1 January	449,850	327,293	122,557	438,280	348,778	89,502
Interest cost on benefit obligation	39,686	28,502	11,184	34,267	26,843	7,424
Current service cost	30,328	16,249	14,079	23,109	14,740	8,369
Past service cost (recognized and unrecognized)	16,284	1,746	14,538	(13,631)	(13,631)	–
Benefits paid	(36,614)	(17,920)	(18,694)	(40,206)	(29,708)	(10,498)
Actuarial losses /(gains) on obligation	57,833	34,406	23,427	20,574	(7,186)	27,760
Curtailment gain	–	–	–	(12,543)	(12,543)	–
Net defined benefit obligation as at 31 December	557,367	390,276	167,091	449,850	327,293	122,557

The movements in the net pension liability in 2012 and 2011 were as follows:

	2012			2011		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Net pension liability as at 1 January	410,041	287,484	122,557	351,312	261,810	89,502
Net expense	116,033	52,805	63,228	98,935	55,382	43,553
Benefits paid	(36,614)	(17,920)	(18,694)	(40,206)	(29,708)	(10,498)
Net pension liability as at 31 December	489,460	322,369	167,091	410,041	287,484	122,557

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

15. Post-employment benefit liabilities (continued)

Net expense under the defined benefit plans in 2012 and 2011 was as follows:

	2012			2011		
	Total	Post employment benefits	Long-term employee benefits	Total	Post employment benefits	Long-term employee benefits
Current service cost	30,328	16,249	14,079	23,109	14,740	8,369
Interest cost	39,686	28,502	11,184	34,267	26,843	7,424
Net actuarial loss recognized in the period	23,427	–	23,427	36,913	9,153	27,760
Recognized past service cost	22,592	8,054	14,538	9,699	9,699	–
Curtailment gain	–	–	–	(5,053)	(5,053)	–
Net expense for the defined benefit plan	116,033	52,805	63,228	98,935	55,382	43,553

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:

	2012	2011
Discount rate (actuarial rate of return), %	7.2	8.5
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:

	2012	2011	2010	2009	2008
Defined benefit obligation	(557,367)	(449,850)	(438,280)	(374,822)	(421,168)
Experience adjustments on plan liabilities	16,230	(40,641)	5,715	56,625	(32,967)

The Group expects to contribute 36,801 to its defined benefit pension plans in 2013.

16. Other non-current liabilities

	31 December 2012	31 December 2011
Long-term advances received	1,710,088	4,815,563
Long-term trade accounts payable	76,216	68,743
Total	1,786,304	4,884,306

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

17. Trade and other payables

	31 December 2012	31 December 2011
Trade accounts payable	7,535,668	6,109,837
Employee-related payables	506,189	533,860
Taxes payable other than on income	147,390	124,597
Other	456,836	326,184
Total	8,646,083	7,094,478

18. Provisions

Movements in provisions during the reporting period were as follows:

	Provisions
As at 1 January 2011	37,196
Arising during the period	104,720
Utilised	(1,985)
Reversed	(18,160)
As at 31 December 2011	121,771
Arising during the period	181,045
Utilised	(60,621)
Reversed	(65,100)
As at 31 December 2012	177,095

Provisions relate to the claims brought against the Group in the ordinary course of business. The balance of the provision as at 31 December 2012 is expected to be utilised in 2013. 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.

19. Revenue

	2012	2011
Network transmission of electricity	28,551,411	28,426,787
Technological losses at the normal (expected) level	(5,030,674)	(5,531,506)
Network transmission of electricity, net of normal (expected) losses	23,520,737	22,895,281
Technological connection to electricity grids	7,579,648	8,629,336
Other revenue	2,034,162	732,178
Total	33,134,547	32,256,795

In 2012 electricity transmission revenue before technological losses at the normal (expected) level from OJSC PSK and LLC Energia-Holding, amounted to 18,997,352 (2011: 19,358,904) and 3,455,843 (2011: 4,411,197), respectively, comprising 78% (2011: 84%) of the total revenue from transmission of electricity before the technological losses at the normal (expected) level. Technological connection fees of 747,423 (2011: 3,661,767) were settled by contribution of property, plant and equipment items from the customers.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

20. Operating expenses

	2012	2011
Transmission fee	13,380,789	13,402,812
Depreciation (Note 4)	4,216,055	4,812,663
Payroll and payroll taxes	4,160,787	4,111,829
Impairment of property, plant and equipment (Note 4)	3,600,893	4,255,798
Repairs and maintenance	1,308,874	1,040,880
Rent	466,933	471,637
Agency services	448,623	7,082
Telecommunication and information services	348,134	347,876
Raw materials and supplies	307,124	261,252
Provision for impairment and write-off of receivables (Note 12)	213,796	505,329
Taxes other than on income	212,485	178,544
Social expenses	195,672	200,605
Consulting, legal and audit services	192,750	142,401
Internal security expenses	128,689	119,539
Utilities	105,635	118,840
Electric metering services	93,213	110,857
Amortisation of intangible assets (Note 3)	87,344	114,747
Impairment loss on finance leases (Note 14)	61,364	122,558
Provision for impairment of inventories	28,918	15,393
(Reversal of)/ impairment of intangible asset (Note 3)	(129,110)	148,440
Other operating expenses	1,230,262	1,014,061
Total	30,659,230	31,503,143

21. Finance income

	2012	2011
Interest income	302,468	60,754
Other finance income	-	730
Total	302,468	61,484

22. Finance cost

	2012	2011
Interest expense on loans	1,755,555	914,287
Interest expense on bonds	268,819	508,267
Interest expense on finance leases	92,431	228,884
Impairment of available-for sale investment	49,317	-
Other finance expenses	9,273	8,406
Total	2,175,395	1,659,844

OJSC Lenenergo

Notes to the consolidated financial statements (continued)

23. Income tax

Consolidated income statement	2012	2011
Current income tax:		
Current income tax charge	545,975	846,357
Deferred income tax:		
Relating to reversal and origination of temporary differences	(176,452)	(747,789)
Income tax expense reported in the income statement	369,523	98,568

Consolidated statement of other comprehensive income	2012	2011
Deferred tax related to items charged or credited directly to other comprehensive income:		
Revaluation of property, plant and equipment	516,692	1,524,767
Unrealised loss on available-for-sale investments	–	660
Reclassification of unrealized gain reserve on available-for-sale financial assets to the statement of comprehensive income	(4,544)	–
Income tax charged directly to other comprehensive income	512,148	1,525,427

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

	2012	2011
Accounting profit/(loss) before tax	602,390	(844,708)
Theoretical tax expense/(benefit) at statutory income tax rate of 20%	120,478	(168,942)
Non-deductible expenses	249,045	267,510
Income tax expense reported in the consolidated income statement at the effective income tax rate of 61% (2011: (12)%)	369,523	98,568

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

23. Income tax (continued)

Deferred income tax as at 31 December 2012 relates to the following:

	31 December 2011	Movement during 2012 recognized in		31 December 2012
		Equity	Profit or loss for the period	
<i>Tax effect of deferred tax assets:</i>				
Impairment provision for accounts receivable	245,899	–	(30,976)	214,923
Accruals and provisions	121,233	–	36,354	157,587
Revenue recognition	23,892	–	88,352	112,244
Post-employee benefits liability	82,008	–	15,884	97,892
Employee-related accruals	69,617	–	(17,150)	52,467
Impairment of intangible assets	64,960	–	(25,822)	39,138
Inventory impairment provision	21,627	–	7,220	28,847
Revaluation of available-for-sale investments	4,544	(4,544)	9,864	9,864
Others	42,969	–	(23,856)	19,113
Deferred tax assets, total	676,749	(4,544)	59,870	732,075
<i>Tax effect of deferred tax liabilities:</i>				
Property, plant and equipment	(3,695,550)	516,692	120,034	(3,058,824)
Deferred expenses	(31,963)	–	4,480	(27,483)
Discounting of bonds issued and loans received	(480)	–	(9,787)	(10,267)
Discounting of long-term trade accounts payable	(7,452)	–	1,855	(5,597)
Deferred tax liabilities, total	(3,735,445)	516,692	116,582	(3,102,171)
Total deferred tax liabilities, net	(3,058,696)	512,148	176,452	(2,370,096)

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

23. Income tax (continued)

	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 recognition	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
Deferred tax assets, total	448,458	–	223,747	672,205
<i>Tax effect of deferred tax liabilities:</i>				
Property, plant and equipment Revaluation of available-for-sale investments	(5,751,104)	1,524,767	530,787	(3,695,550)
Discounting of long-term trade accounts payable	3,884	660	–	4,544
Discounting of bonds issued	(9,133)	–	1,681	(7,452)
Deferred expenses	(2,777)	–	2,297	(480)
	(21,240)	–	(10,723)	(31,963)
Deferred tax liabilities, total	(5,780,370)	1,525,427	524,042	(3,730,901)
Total deferred tax liabilities, net	(5,331,912)	1,525,427	747,789	(3,058,696)

24. Earnings per share

	31 December 2012	31 December 2011
Weighted average number of outstanding ordinary shares (thousands)	1,829,821	926,022
Weighted average number of outstanding preference shares (thousands)	93,264	93,264
Net profit/(loss) attributable to equity holders	234,650	(950,511)
- attributable to holders of ordinary shares	223,270	(863,540)
- attributable to holders of preference shares	11,380	(86,971)
Earnings/(loss) per ordinary share – basic and diluted (Rubles)	0.12	(0.93)
Earnings/(loss) per preference share – basic and diluted (Rubles)	0.12	(0.93)

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

25. 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 2012 of 466,933 (2011: 471,637) were recognized within income statement (Note 20).

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

	2012	2011
Within one year	413,930	304,389
After one year but not more than five years	1,250,776	630,723
More than five years	708,599	570,376
Total	2,373,305	1,505,488

Commitments to purchase property, plant and equipment

Future capital expenditures under the signed contracts amount to 14,785,852 as at 31 December 2012 (31 December 2011: 15,671,449).

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.

Operating environment of the Group

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

25. Commitments and contingencies (continued)

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 2012 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.

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.

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 18).

26. 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 2012 and 2011 with the following related parties.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

26. Related party transactions (continued)

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

	31 December 2012	31 December 2011
<i>Accounts receivable, including:</i>		
Advances given	1,378	13
OJSC EnergoUchet	1,378	
OJSC NW EMK	–	13
Other receivables	98	33
OJSC EnergoUchet	65	
MRSK-Holding	33	33
<i>Accounts payable, including</i>		
Trade accounts payable	3,613	4,813
MRSK-Holding	3,590	4,813
OJSC NW EMK	23	–
Advances received	13	–
OJSC NW EMK	13	–
Other accounts payable	588	–
OJSC EnergoUchet	588	–
	2012	2011
Consulting, legal and audit services	81,583	81,583
MRSK-Holding	81,583	81,583

Non-government pension fund Electroenergetiki

The outstanding balances with NPF Electroenergetiki were as follows:

	31 December 2012	31 December 2011
Other accounts receivable	131,736	122,820

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 is 71,913 (2011: 85,270).

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.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

27. 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 2012 and 2011 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 19.

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 19 that accounted for greater than 10% of its revenue during the years ended 31 December 2012 and 2011.

28. Financial risk management

As at 31 December 2012 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 9.

The Group's revenue from two largest customers OJSC PSK and LLC Energia-Holding is disclosed in Note 19.

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.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

28. Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments:

As at 31 December 2012	1 year	2 years	3-5 years	Over 5 years
Bonds issued	254,301	508,603	3,508,603	–
Interest-bearing loans	8,978,201	9,263,199	10,385,687	–
Trade and other accounts payable	7,739,432	1,800	102,401	–
Other financial obligations	38,727	14,122	8,883	–
Total	17,010,661	9,787,724	14,005,574	–

As at 31 December 2011	1 year	2 years	3-5 years	Over 5 years
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	–
Total	13,918,145	3,842,126	20,155,197	–

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:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash	3,513,622	3,513,622	7,108,538	7,108,538
Short-term investment	2,266,000	2,266,000	–	–
Available-for-sale investments	100	100	26,700	26,700
Accounts receivable	2,077,119	2,077,119	991,044	991,044
Obligations under finance leases	(53,377)	(53,377)	(586,643)	(586,643)
Short-term part of borrowings	(7,119,980)	(7,067,802)	(6,190,743)	(6,102,000)
Long-term fixed rate borrowings	(20,617,643)	(20,000,542)	(20,800,000)	(20,291,149)
Trade and other payables	(7,992,504)	(7,992,504)	(6,436,021)	(6,436,021)

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

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

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 2012, the carrying amounts of borrowings are not materially different from their calculated fair values.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

28. Financial risk management (continued)

Fair value hierarchy

As at 31 December 2012 and 2011 the Group held the following financial instruments measured at fair value:

	31 December 2012	Level 1	Level 2	Level 3
Available-for-sale investments	100	–	–	100
	31 December 2011	Level 1	Level 2	Level 3
Available-for-sale investments	26,700	–	–	26,700

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).

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 2012 and 2011 there were no transfer within levels of the fair value measurements.

Reconciliation of fair value measurements of Level 3 financial instruments

	Level 3		
	OJSC NW EMK	Other	Total
1 January 2011	29,900	100	30,000
Unrealised gains (losses) recognised in other comprehensive income	(3,300)	–	(3,300)
31 December 2011	26,600	100	26,700
Impairment of available-for-sale investments	(26,600)	–	(26,600)
31 December 2012	–	100	100

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.

OJSC Lenenergo
Notes to the consolidated financial statements (continued)

28. Financial risk management (continued)

Capital risk management (continued)

No changes were made in the objectives, policies or processes during the years ending 31 December 2012 and 31 December 2011.

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 85%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

	31 December 2012	31 December 2011
Interest-bearing loans and borrowings (Note 14)	27,791,000	27,577,386
Trade and other payables (Note 17)	8,646,083	7,094,478
Less cash and cash equivalents (Note 7)	(3,513,622)	(7,108,538)
Net debt	32,923,461	27,563,326
Ordinary shares (Note 13)	5,075,155	4,866,115
Preference shares (Note 13)	625,603	625,603
Total capital	5,700,758	5,491,718
Capital and net debt	38,624,219	33,055,044
Gearing ratio	85%	83%

As at 31 December 2012 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.

29. Events after the reporting period

In February 2013 LLC RKS-Energo cancelled contract with the Group. Transmission revenue for 2012 generated from sales to LLC RKS-Energo comprised 2,564,095.

In March 2013 the Group received several tranches in amount of 680,356 from VneshEconBank, new tranche of 635,794 from OJSC AB Rossiya and 146,264 from OJSC Sberbank under the credit lines described in Note 14.

The Group received 400,000 under renewable credit line agreement with OJSC Sberbank entered into 2011 bearing interest rate 7.86 % and maturing in September 2016 and repaid all outstanding balance before maturity.

The Group repaid 460,000 and 61,560 under credit line agreements with OJSC Sberbank and OJSC Bank VTB Severo-Zapad entered into 2010 before maturity.