

Open Joint Stock Company Lenenergo

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards

For the year ended 31 December 2009

Open Joint Stock Company Lenenergo

Consolidated Financial Statements

For the year ended 31 December 2009

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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 2009, 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 notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

20 April 2010
St. Petersburg, Russia

OJSC LENENERGO

Consolidated Statement of Financial Position as at 31 December 2009

(in thousands of Russian Rubles)

		31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Intangible assets	4	696,275	570,154
Property, plant and equipment	5	73,332,231	66,235,792
Advances for construction of property, plant and equipment	6	4,135,536	5,025,306
Available-for-sale investments	7	525,913	304,533
Other non-current assets	8	272,310	887,426
Total non-current assets		78,962,265	73,023,211
Current assets			
Cash and cash equivalents	9	2,948,801	2,498,850
Accounts receivable	10	1,332,425	1,209,336
Inventories	11	361,166	235,484
Other current assets	12	4,720,628	6,387,647
Total current assets		9,363,020	10,331,317
TOTAL ASSETS		88,325,285	83,354,528
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Ordinary shares	14	4,866,115	4,866,115
Preference shares	14	625,603	625,603
Share premium	14	5,548,880	5,548,880
Other reserves	14	29,003,426	28,857,780
Retained earnings		5,769,857	3,302,755
		45,813,881	43,201,133
Non-controlling interest	3	19,812	39,430
Total equity		45,833,693	43,240,563
Non-current liabilities			
Long-term borrowings	15	10,073,664	12,946,293
Deferred tax liabilities	24	5,283,093	5,863,986
Post-employment benefits liability	16	294,536	308,313
Other non-current liabilities	17	1,274,873	5,377,237
Total non-current liabilities		16,926,166	24,495,829
Current liabilities			
Current portion of long-term borrowings	15	6,610,816	436,143
Trade and other payables	18	3,978,577	4,598,901
Income tax payable		553,549	1,118,258
Advances received from customers		14,422,484	9,464,834
Total current liabilities		25,565,426	15,618,136
Total liabilities		42,491,592	40,113,965
TOTAL EQUITY AND LIABILITIES		88,325,285	83,354,528

General Director
Chief Accountant

D.V.Ryabov
G.V.Kuznetsova

20 April 2010

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

OJSC LENENERGO

Consolidated Income Statement for the year ended 31 December 2009

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

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenues	19	22,800,390	17,913,636
Operating expenses	20	<u>(18,489,176)</u>	<u>(14,607,578)</u>
Operating profit		4,311,214	3,306,058
Finance income	21	77,860	2,291,642
Finance expenses	22	<u>(2,084,428)</u>	<u>(1,372,074)</u>
Foreign exchange loss		(172,760)	(967,043)
Permanent decline in fair value of available-for-sale investments		-	<u>(210,956)</u>
Profit before tax		2,131,886	3,047,627
Income tax benefit/(expense)	23	<u>455,486</u>	<u>(1,209,643)</u>
Net profit for the year		<u>2,587,372</u>	<u>1,837,984</u>
Attributed to:			
Equity holders		2,578,481	1,833,660
Non-controlling interest		8,891	4,324
Earnings per ordinary share – basic and diluted (Russian Rubles)	24	2.38	2.11
Earnings per preference share – basic and diluted (Russian Rubles)	24	2.38	2.11

General Director

D.V.Ryabov

Chief Accountant

G.V.Kuznetsova

20 April 2010

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OJSC LENENERGO

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Net profit		2,587,372	1,837,984
Other comprehensive income			
Unrealized gain/(loss) on available-for-sale financial assets	14	221,380	(197,844)
Income tax effect	14	(44,276)	52,717
Unrealized gain/(loss) on available-for-sale financial assets, net of tax		177,104	(145,127)
Revaluation of property, plant and equipment	14	-	29,445,021
Income tax effect	14	-	(5,629,149)
Revaluation of property, plant and equipment, net of tax		-	23,815,872
Other comprehensive income, net of tax		177,104	23,670,745
Total comprehensive income, net of tax		2,764,476	25,508,729
Attributed to:			
Equity holders		2,755,585	25,504,405
Non-controlling interest		8,891	4,324
		2,764,476	25,508,729

General Director

D.V.Ryabov

Chief Accountant

G.V.Kuznetsova

20 April 2010

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OJSC LENENERGO

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

(in thousands of Russian Rubles)

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Ordinary shares	Preference shares	Share premium (Note 14)	Other reserves (Note 14)	Retained earnings	Total		
As at 1 January 2008	4,631,947	625,603	-	5,187,035	1,560,702	12,005,287	-	12,005,287
Profit for the period	-	-	-	-	1,833,660	1,833,660	4,324	1,837,984
Other comprehensive income	-	-	-	23,670,745	-	23,670,745	-	23,670,745
Total comprehensive income	-	-	-	23,670,745	1,833,660	25,504,405	4,324	25,508,729
Ordinary shares issued	234,168	-	5,548,880	-	-	5,783,048	-	5,783,048
Dividends for 2007	-	-	-	-	(91,607)	(91,607)	-	(91,607)
Non-controlling interest arising on business combination	-	-	-	-	-	-	35,106	35,106
As at 31 December 2008	4,866,115	625,603	5,548,880	28,857,780	3,302,755	43,201,133	39,430	43,240,563
Profit for the period	-	-	-	-	2,578,481	2,578,481	8,891	2,587,372
Other comprehensive income	-	-	-	177,104	-	177,104	-	177,104
Total comprehensive income	-	-	-	177,104	2,578,481	2,755,585	8,891	2,764,476
Release of asset revaluation reserve	-	-	-	(31,458)	31,458	-	-	-
Dividends for 2008	-	-	-	-	(153,961)	(153,961)	-	(153,961)
Acquisition of non-controlling interest	-	-	-	-	11,124	11,124	(28,509)	(17,385)
As at 31 December 2009	4,866,115	625,603	5,548,880	29,003,426	5,769,857	45,813,881	19,812	45,833,693

General Director

D.V.Ryabov

Chief Accountant

G.V.Kuznetsova

20 April 2010

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

OJSC LENENERGO

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

(in thousands of Russian Rubles)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Profit before tax		2,131,886	3,047,627
Adjustments to reconcile profit before tax and net cash flow from operating activities:			
Loss on disposal of property, plant and equipment		53,306	95,902
Loss on revaluation of property, plant and equipment	20	-	797,908
Finance income	21	(77,860)	(2,291,642)
Depreciation of property, plant and equipment	5, 20	3,918,077	1,702,052
Amortization of intangible assets	4, 20	128,249	77,880
Impairment of goodwill	4	312,833	-
Impairment of intangible asset	4	139,000	-
Foreign exchange loss		172,760	967,043
Finance expenses	22	2,084,428	1,372,074
Permanent decline in fair value of available-for-sale investments		-	210,956
Movements in the provision for impairment of receivables	13, 20	226,052	172,609
Impairment loss on finance leases	20	490,894	-
Non-cash settlement of technological connection revenue	19	(242,389)	(498,339)
Provision for impairment of inventories	20	3,512	42,431
Net expense for the defined benefit plan	16	15,317	56,500
Change in provisions	18	178,197	(1,595)
Operating cash flows before changes in working capital		9,534,262	5,751,406
Decrease in accounts payable and accrued expenses		(4,360,502)	(378,324)
Increase in advances received		4,957,786	5,412,848
(Decrease)/increase in other non-current liabilities		(3,517,671)	1,361,480
Decrease/(increase) in trade and other receivables		67,965	(406,135)
Increase in inventories		(129,193)	(30,321)
Decrease in taxes payable other than income tax		(232,348)	(45,278)
Decrease/(increase) in other current assets		561,835	(1,335,154)
Cash generated from operations		6,882,134	10,330,522
Interest paid		(992,572)	(852,280)
Income tax paid		(512,102)	(502,175)
Pension benefits paid	16	(29,094)	(25,600)
Net cash generated from operating activities		5,348,366	8,950,467

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

OJSC LENENERGO
Consolidated Statement of Cash Flows (continued)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flow from investment activities			
Purchases of property, plant and equipment		(7,120,014)	(9,336,268)
Purchases of intangible assets		-	(159,866)
Decrease/(increase) in advances for construction of property, plant and equipment		784,744	(1,136,239)
Proceeds from disposal of property, plant and equipment		3,289	34,866
Acquisition of subsidiaries, net of cash acquired	3	-	(794,071)
Deposits placed		-	(40,000)
Dividends received		14,625	23,992
Interest received		35,117	354,902
Net cash used in investment activities		(6,282,239)	(11,052,684)
Cash flow from financing activities			
Repayment of short-term borrowings, net		-	(22,000)
Long-term borrowings received		3,000,000	-
Advance contributions for shares issued returned		-	(10,033)
Dividends paid		(153,961)	(91,607)
Acquisition of non-controlling interest	3	(17,385)	-
Repayment of finance lease liabilities		(1,444,830)	(1,178,371)
Total cash provided by/(used in) financing activities		1,383,824	(1,302,011)
Net increase/(decrease) in cash and cash equivalents		449,951	(3,404,228)
Cash and cash equivalents at the beginning of the year	9	2,498,850	5,903,078
Cash and cash equivalents at the end of the year	9	2,948,801	2,498,850

General Director
Chief Accountant

D.V.Ryabov
G.V.Kuznetsova

20 April 2010

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements
for the year ended 31 December 2009
(in thousands of Russian Rubles, except per share amounts)

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 2009 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%) (hereinafter collectively referred to as “the Group”). The latter two companies were acquired in September and November of 2008 via CJSC Lenenergospetsremont.

In July 2009 OJSC Kurortenergo was reorganized into a closed joint stock company (CJSC).

As at 31 December 2008 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), OJSC Kurortenergo (92.56%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%).

The Group currently operates in two regions of the Russian Federation: the city of St. Petersburg and Leningrad Region.

The registered office of the Company is at 1, Constitution Square, 196247, St. Petersburg.

At 31 December 2009 the total number of employees was 6,285 (2008: 6,086).

Relations with the state and current legislation

The Group is under control of OJSC MRSK Holding (hereinafter “MRSK-Holding”), which as at 31 December 2009 and 2008 owned 45.71% of the Group’s share capital, including 50.31% of voting ordinary shares, and which in turn is controlled by the Russian Federation. The Group provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group’s suppliers are state-controlled entities.

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

Financial position and liquidity

As at 31 December 2009 the Group’s current liabilities exceeded its current assets by 16,202,406 (31 December 2008: 5,286,819). The Group’s net profit for the year ended 31 December 2009 was 2,587,372 (2008: 1,837,984), including 2,578,481 attributed to equity holders of the parent (2008: 1,833,660). In 2009 the Group generated cash flow from operating activities of 5,348,366 (2008: 8,950,467).

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

1. Corporate information (continued)

Financial position and liquidity (continued)

In 2009 the Group experienced a decline in most of liquidity ratios. The ongoing global financial crisis caused instability in the stock markets affecting the financial situation, operating performance and general economic outlook for the Group. Thus, current ratio, being current assets divided by current liabilities, decreased from 0.66 as at 31 December 2008 to 0.37 as at 31 December 2009; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, decreased from 0.24 as at 31 December 2008 to 0.17 as at 31 December 2009.

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

- 1) Forthcoming maturity of the loan granted by Barclays Bank (Note 15);
- 2) Increase in short-term obligations mainly due to the increase of advances received for technological connection to electricity grids which will be settled by the provision of respective services;
- 3) Current tariffs for electricity transmission are established based on the application of 'cost plus' method and do not include economically reasonable rate of return on the investments.

In 2009 and 2008 the Group's management monitored compliance with financial performance requirements set in the loan agreement with Barclays Bank concluded in December 2007 (Note 15). As at 31 December 2009 and 2008 the Group's financial performance indicators were in line with the covenants imposed by the respective loan. In order to compensate for currency risk the Group concluded a swap agreement (Note 15).

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

- 1) Adjustment of the Group's investments into power lines and equipment:
 - the emphasis was shifted from the construction of new electric power supplies and other power equipment to completion of the previously launched projects having high stage of completion in order to ensure additional operating cash flows within relatively short period of time;
 - measures are being taken to decrease the construction period from 2-2.5 years to one year and thus to accelerate cash inflows from customers for technological connection to the electricity grids;
 - several engineering and construction works were suspended and some investment projects may be deferred or scaled down commensurate with the financing needed to support the Group's current operations.
- 2) Negotiating with federal and regional governments and regulators on increases in tariffs to support adequate long-term investments into electricity transmission and distribution assets of the Group. In 2009 the average increase in transmission regulated tariffs was 33%.
- 3) Improving operating efficiency of the Group through implementation of programs to reduce technological losses on transmission of electricity through the Group's own network and operating expenses.
- 4) Implementing improved financial budgeting procedures with a strong focus on timely collection of receivables; restructuring of liabilities to enable their repayment over a longer period.
- 5) Negotiating favorable terms for attracting additional borrowings.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

1. Corporate information (continued)

Financial position and liquidity (continued)

The above measures are expected to ensure cash inflows sufficient to finance operations in 2010, including refinancing of the short-term liability under the existing borrowings.

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 2009. These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

These consolidated financial statements were prepared on historical cost convention, except for the following items: property, plant and equipment and assets under construction, derivative financial instruments, available-for-sale investments and financial assets at fair value through profit and loss – that were measured at fair value.

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

Statement of compliance

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

Going concern

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. The financial statements do not include any adjustments that would be necessary if the Group was unable to continue as a going concern.

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 that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as at 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.

Non-controlling interest (formally known as minority interests) represents the portion of profit or loss and net assets that is not held by the Group and is presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interest are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in equity.

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

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2009.

- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 23 *Borrowing Costs (Revised)*
- IAS 24 *Related Party Disclosures (Revised 2009)* - early adopted
- IAS 32 *Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC 9 *Reassessment of Embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfers of Assets from Customers* (adopted as at 1 July 2009)
- Improvements to IFRSs (May 2008 and April 2009 – early adopted)

An impact of the adoption of the standard or interpretation on the financial statements of the Group is described below:

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement and the liquidity risk disclosures presented in Note 28 are not significantly impacted by the amendments.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group analyzed its disclosure requirements and came to a conclusion that it has a single reportable segment since any further division of its activities (either by types of rendered services or by geographic areas) does not satisfy the definition of the operating segment in IFRS 8.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

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)

IAS 23 Borrowing Costs

The standard has been revised to require capitalisation of borrowing costs on qualifying assets subject to certain exemptions effective from 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed. The Group qualifies for the exemption from borrowing cost capitalization according to IAS 23 (4) since its qualified assets are measured at fair value. The selection of non-capitalization alternative was stated as an accounting policy choice.

IAS 24 Related Party Disclosures (2009)

Introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group early adopted this standard.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instrument and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 defines criteria for construction contracts and principles of revenue recognition to be accounted under IAS 11 *Construction contracts* and IAS 18 *Revenue*. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

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

2.2 Changes in accounting policy and disclosures (continued)

IFRIC 18 Transfers of Assets from Customers

The Interpretation explains circumstances, in which assets, transferred by customers should be recognized as Group's assets, and defines approaches for their valuation when initially recognized. Also considers situations, where client provides cash for purchase of those assets. The adoption of this interpretation has no material impact on the financial position or the performance of the Group due to the application of revaluation model (Note 5).

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IFRS 8 Operating Segment Information:* Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's operations represent a single operating segment, the new disclosure requirements will not impact the presentation of financial information.
- *IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- *IAS 16 Property, Plant and Equipment:* Replaces the term 'net selling price' with 'fair value less costs to sell'. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- *IAS 18 Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - has primary responsibility for providing the goods or service;
 - has inventory risk
 - has discretion in establishing prices
 - bears the credit risk.

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- *IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

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)

- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as it has a single operating segment.
- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the company either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

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

- IFRS 2 *Share-based Payment*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 7 *Statement of Cash Flows*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 16 *Property, Plant and Equipment*
- IAS 17 *Leases*
- IAS 18 *Revenue*
- IAS 19 *Employee Benefits*
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments in Associates*
- IAS 29 *Financial Reporting in Hyperinflationary Economies*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Properties*
- IAS 41 *Agriculture*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

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

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

Standard / Interpretation	Essence of amendments	Effective date
IFRS 3R (as amended in 2008) <i>Business Combinations</i>	Introduces several amendments for group of companies accounting. Those changes will influence amount of goodwill and financial results subject to reporting in acquisition period and further periods.	Applicable for annual reporting periods, starting on or after 1 July 2009.
IFRS 9 <i>Financial Instruments</i>	Introduces a single approach to determine whether a financial asset is measured at amortised cost or fair value. The Group has not yet determined the potential effect of the standard.	Applicable for annual reporting periods, starting on or after 1 January 2013.
IAS 27R (as amended in 2008) <i>Consolidated and Separate Financial Statements</i>	Requires treating change of share in subsidiary Group as equity operation. Amends treatment requirements for subsidiary losses and loss of control for subsidiary Group. The Group has not yet determined the potential effect of the amendment.	Applicable for annual reporting periods, starting on or after 1 July 2009.
Amendments to IAS 32 <i>Financial Instruments: Presentation – Classification of Right Issues</i>	States that if rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Group has not yet determined the potential effect of the amendment.	Applicable for annual reporting periods, starting on or after 1 February 2010.
Amendments for IAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>	Clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has not yet determined the potential effect of the amendment.	Applicable for annual reporting periods, starting on or after 1 July 2009.
IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. IAS 39 clarifies that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Group has not yet determined the potential effect of the amendment.	Applicable for annual reporting periods, starting on or after 1 July 2009.
Amendments to IFRIC 14 IAS 19 <i>Prepayments of a Minimum Funding Requirement</i>	Permits the entity which is subject to minimum funding requirements to treat the benefits of early payment of contributions as an asset. The Group has not yet determined the potential effect of the amendment.	Applicable for annual reporting periods, starting on or after 1 January 2011.

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)

<p>IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i></p>	<p>Explains how non-cash assets are distributed between owners. Also considers situations, where Group provides option for receiving non-cash assets or their cash equivalent. The Group does not expect IFRIC 17 to have any impact on the consolidated financial statements of the as the Group has not made non-cash distributions to shareholders in the past.</p>	<p>Applicable for annual reporting periods, starting on or after 1 July 2009.</p>
<p>IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i></p>	<p>Addresses the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group has not yet determined the potential effect of the interpretation.</p>	<p>Applicable for annual reporting periods, starting on or after 1 July 2010.</p>

The Group plans to adopt these pronouncements when they become effective.

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

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date and for the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

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

Accounting for connection fee revenue

Management believes that connection fee revenue (one-time fee charged to clients when first connected to electricity grid) is a necessary prerequisite to the sale of electricity, and, as such, should be recognised immediately at the time when access to electrical power is provided (i.e. at the time of connection). The total connection fee revenue reported in the consolidated income statement for the year ended 31 December 2009 was 6,638,230 (year ended 31 December 2008: 5,670,549) (Note 19).

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 disclosed below.

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 measures property, plant and equipment at revalued amounts in accordance with IAS 16 with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2008 (see Note 5 for further details). The Group believes that there were no material changes in the fair value of property, plant and equipment as at 31 December 2009.

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 projected cash flows were used in analysis 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 recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for a cash generating unit (Note 4).

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values as detailed in Note 7. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Impairment provision for accounts receivable and advances given

The Group estimates the amount of impairment provision for its receivables. Significant judgment is used to estimate accounts which are impaired. In estimating doubtful accounts historical and anticipated customer performance is considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the impairment provision for accounts receivable and advances given recorded in the consolidated financial statements. As at 31 December 2009 impairment provision for accounts receivable and advances given was created in the amount of 703,060 (as at 31 December 2008: 892,629). Further details are disclosed in Note 13.

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 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.

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 2009 was 294,536 (2008: 308,313). Further details are disclosed in Note 16.

Equity-settled share-based payment transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model and making assumptions about them (Note 14).

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 fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. In 2009 and 2008 the whole Group was considered as a single cash generating unit.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Intangible assets

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

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

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

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

2.5 Summary of significant accounting policies (continued)

Intangible assets (continued)

Intangible assets with 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 2009 the Group acquired the right to connect end users to the electricity grid in Roschino, Leningrad Region for 624,000. In 2009 the Group recognized impairment of this asset of 139,000 (Note 4).

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

Asset group	Useful life
Access right	30
Accounting software packages	2-3
Certificates	3

Property, plant and equipment

The Group uses revaluation model prescribed by IAS 16 *Property, Plant and Equipment* recognising the net book value of property, plant and equipment and construction in progress. Property, plant and equipment is stated at a revalued amount, which is their fair value as at the revaluation date less accumulated depreciation and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

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)

Major renewals and improvements are capitalized, and the assets replaced are retired. Expenditure for routine repairs and maintenance are charged to the income statement as incurred.

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

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

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

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

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

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

Leases

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

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

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, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

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

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

Group as a lessor

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

Impairment of non-financial assets

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

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where 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 as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

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. In 2009 the Group recognized goodwill impairment of 312,833 (Note 4).

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.

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

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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

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 in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39 (Note 12). Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

The Group evaluated its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. 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.

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.

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 (continued)

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. 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 has the following categories of assets classified as loans and receivables: accounts receivable (Note 10) and other current assets with respect to short-term bank promissory notes (Note 12).

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 it 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 2009 and 2008.

Available-for-sale financial assets

Available-for-sale financial investments include equity 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. 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 determined to be impaired, at which time the cumulative loss is recognised in the consolidated income statement in finance costs and removed from the other reserves.

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

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 (continued)

Available-for-sale financial assets (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that 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 expected cash flows 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.

As at 31 December 2009 the Group holds available-for-sale investments with the fair value of 525,913 (31 December 2008: 304,533) (Note 7).

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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new 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.

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)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

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.

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)

Impairment of financial assets (continued)

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 to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts and derivative financial instruments.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

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

2.5 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement

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 includes 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. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method and 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

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

2.5 Summary of significant accounting policies (continued)

Offsetting of financial instruments

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

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.

Derivative financial instruments

Initial recognition and subsequent measurement

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

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement.

For the years ended 31 December 2009 and 2008 the Group did not have any derivatives designated as hedging instruments. Loss of 816,018 (2008: gain of 1,887,531) (Notes 21, 22) related to the change in the fair value of the interest rate and currency swap contract was included into finance expenses and finance income in the income statement for the year ended 31 December 2009 and 2008, respectively.

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. If there is an indication that inventories may be impaired (obsolescence or severe wear and tear) an impairment provision is created. As at 31 December 2009 and 2008 the Group recognized an impairment provision of 163,205 and 158,654 respectively (Note 11).

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term deposits and promissory notes issued by the banks 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 and promissory notes 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 consolidated income statement. The Group also contributes to defined benefit and defined contribution pension plans. The defined benefit plan involves post-employment payments based upon one or more factors, such as age, years with the Group and salary. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs and actuarial gains and losses not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. Defined benefit obligation is determined using the projected unit credit actuarial valuation method.

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

Other long-term benefits include:

- funeral benefit
- jubilee benefit

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

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)

Equity-settled share-based payment transactions

The Group treats the transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) as share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. The Group recognizes the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate. The Group recognizes a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

In 2008 the Group completed the placement of shares which commenced in November 2007 and received property, plant and equipment as a part of consideration for the shares issued (Note 14). The Group recorded property, plant and equipment and related increase in equity based on an independent appraisal of the fair value of the transferred assets of 2,737,385 (Note 5).

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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Borrowing costs

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

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

2.5 Summary of significant accounting policies (continued)

Foreign currency translation

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

The official spot exchange rates prevailing at 31 December 2009 were 30.2442 Rubles for 1 USD and 43.3883 Rubles for 1 Euro (31 December 2008: 29.3804 Rubles for 1 USD and 41.4411 Rubles for 1 Euro).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, 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) and losses in excess of the normal expected level (Note 20). 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 (Note 20).

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 or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included into finance income in the income statement (Note 21).

Dividends

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

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the country where the Group operates and generates taxable income. 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 for 2008 was 24%. Starting from 1 January 2009 the Russian Government changed the income tax rate to 20%.

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- 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 income tax (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:

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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.

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)

Dividends

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

Earnings per share

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

Preference shares are treated as voting shares (Note 14). Earnings per share are calculated by dividing profit attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the period less weighted average number of treasury shares held by the Group.

2.6 Reclassifications

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

- Other tax payables of 77,868 as at 31 December 2008 are shown within Trade and Other Payables (Note 18), while previously reported separately.

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

3. Business combinations and acquisition of non-controlling interests

Acquisitions in 2009

Acquisition of additional Interest in CJSC Kurortenergo

In October 2009, the Group acquired an additional 5.562% of the voting shares of CJSC Kurortenergo, increasing its ownership to 98.127%. A cash consideration of 17,385 was paid to the non-controlling interest shareholders.

The carrying value of the net assets of CJSC Kurortenergo (excluding goodwill on the original acquisition) at this date was 512,559, and the carrying value of the additional interest acquired was 28,509. The difference of 11,124 between the consideration paid and carrying value of the interest acquired has been recognised directly in retained earnings within equity.

Acquisitions in 2008

Acquisition of OJSC Tsarskoselskaya Energeticheskaya Compania

On 22 September 2008, as a part of the business strategy to expand its activities in Leningrad Region, the Group acquired 96.955% of the voting shares of OJSC Tsarskoselskaya Energeticheskaya Compania (hereinafter referred to as "OJSC TEC"), that is engaged in the same business activities as the Group. The difference between cash consideration paid of 543,083 and fair value of the interest acquired of 230,250, was recognised as goodwill, which is attributable to the expected synergies arising from the acquisition.

The Group accounted for the acquisition of OJSC TEC applying the purchase method, in accordance with provisions of IFRS 3 *Business Combinations*. The results of operations and financial position of OJSC TEC were consolidated by the Group starting from 22 September 2008.

The following table summarizes the fair values of identifiable net assets of OJSC TEC acquired as at the acquisition date:

	Fair value recognised at acquisition
Property, plant and equipment	279,281
Inventories	15,906
Trade receivables	79,666
Cash and cash equivalents	70,450
Trade payables	(185,309)
Deferred tax liability	(22,512)
Net assets	237,482
Non –controlling interest (3.045%)	(7,232)
Net assets acquired	230,250
Goodwill arising on acquisition	312,833
Total consideration	543,083

The disclosure of carrying values of assets, liabilities and contingencies of OJSC TEC in accordance with IFRS, immediately before the business combination, is impracticable as OJSC TEC had not been an IFRS reporter.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

3. Business combinations and acquisition of non-controlling interests (continued)

Acquisitions in 2008 (continued)

Acquisition of OJSC Tsarskoselskaya Energeticheskaya Compania (continued)

Cash outflow on acquisition was as follows:

Net cash acquired with the subsidiary	70,450
Cash paid	(543,083)
Net cash outflow	<u>(472,633)</u>

From the date of acquisition, OJSC TEC has contributed 32,521 to the profit of the Group for 2008. If the combination had taken place at the beginning of 2008, the profit for the year from continuing operations for the Group would have been 1,850,333 and revenue from continuing operations would have been 17,875,726.

Acquisition of OJSC Kurortenergo

On 17 November 2008, as a part of the business strategy to expand its activities in Leningrad Region the Group acquired 92.565% of the voting shares of OJSC Kurortenergo that is engaged in the same business activities as the Group.

The Group accounted for the acquisition of OJSC Kurortenergo applying the purchase method, in accordance with provisions of IFRS 3 *Business Combinations*. The results of operations and financial position of OJSC Kurortenergo were consolidated by the Group starting from 17 November 2008.

The following table summarizes the fair values of identifiable net assets of OJSC Kurortenergo as at the acquisition date:

	Fair value recognised at acquisition
Property, plant and equipment	468,758
Inventories	25,487
Trade receivables	149,370
Cash and cash equivalents	25,562
Trade payables	(263,687)
Short-term borrowings	(22,000)
Deferred tax liability	(8,607)
Net assets	374,883
Non-controlling interest (7.435%)	(27,874)
Total net assets acquired	<u>347,009</u>
Excess of net assets acquired over consideration paid	(9)
Total consideration	<u>347,000</u>

The excess of net assets acquired over consideration paid of 9 was recognized in the income statement.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

3. Business combinations and acquisition of non-controlling interests (continued)

Acquisitions in 2008 (continued)

Acquisition of OJSC Kurortenergo (continued)

Cash outflow on acquisition was as follows:

Net cash acquired with the subsidiary	25,562
Cash paid	(347,000)
Net cash outflow	(321,438)

From the date of acquisition, OJSC Kurortenergo has contributed 50,191 to the profit of the Group for 2008. If the combination had taken place at the beginning of 2008, the profit for the year from continuing operations for the Group would have been 1,881,276 and revenue from continuing operations would have been 17,946,099.

4. Intangible assets

	Accounting software	Certificates	Access right	Goodwill	Total
Cost					
Balance as at 1 January 2008	130,480	74,465	-	-	204,945
Additions for the period	138,960	14,176	-	-	153,136
Acquisition of subsidiaries (Note 3)	-	-	-	312,833	312,833
Balance as at 31 December 2008	269,440	88,641	-	312,833	670,914
Additions for the period	67,567	14,636	624,000	-	706,203
Balance as at 31 December 2009	337,007	103,277	624,000	312,833	1,377,117
Amortization and impairment					
Balance as at 1 January 2008	(10,650)	(12,230)	-	-	(22,880)
Charge for the period	(54,481)	(23,399)	-	-	(77,880)
Balance as at 31 December 2008	(65,131)	(35,629)	-	-	(100,760)
Charge for the period	(87,069)	(27,180)	(14,000)	-	(128,249)
Impairment	-	-	(139,000)	(312,833)	(451,833)
Balance as at 31 December 2009	(152,200)	(62,809)	(153,000)	(312,833)	(680,842)
Net book value as at 31 December 2008	204,309	53,012	-	312,833	570,154
Net book value as at 31 December 2009	184,807	40,468	471,000	-	696,275

Certificates are acquired for the purposes of conformity with the electricity quality standards. The new certificates are valid until 2011.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

4. Intangible assets (continued)

Impairment of goodwill

The Group performed its annual impairment test of goodwill as at 31 December 2009. The Group considers delay in “Regulatory asset base” (RAB) tariffs implementation, among other factors, when reviewing indicators of impairment.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculated using cash-flow projections from financial budgets approved by the management of the Group covering a 12-year period. The selected forecast period is stipulated by fluctuations of the expected cash flows during 10 years after RAB tariff system implementation expected to be in 2011. After 2021 year the average cash flows are forecasted as stable.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for a cash-generating unit is the most sensitive to the following assumptions:

	2010	2011-2012	2013-2014	2015-2021
Transmission revenue tariff increase, %	13%-15%	29%-33%	27%-31%	(6%)-12%
Transmission volume increase, %	1.5%-1.6%	0%-1.8%	0%-1.2%	0%
Normal network technological losses, %	11.3%-12.4%	11.2%-11.4%	9.4%-10.6%	9.4%-10.6%
Weighted average cost of capital (WACC)	20.6%	19.3%-20.0%	16.5%-17.4%	14.3%-18.3%

Transmission revenue tariff increase – The Group considered the change in tariffication system from the currently applied cost-plus model to a reasonable rate on return (ROR) model from 2011 and onwards, which is expected to cause future increase in transmission tariffs in the next four years. A reduction of revenue tariff growth by 1% would result in the recoverable amount of CGU decrease by 18%.

Transmission volume increase – The Group has considered transmission volume trends during prior periods as well as management plans and analytic forecasts on future electricity consumption in Saint-Petersburg and Leningrad region. Should the Group be unable to achieve any growth in transmission volume the recoverable amount will decrease of CGU recoverable amount by 12%.

Normal network technological losses – The Group accounted for future decline in technological losses normal level as result of taken measures on losses prevention and installation of more accurate electricity metering equipment. Increase in normal network technological losses by 1% would affect the reduction of CGU recoverable amount by 4%.

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 10%.

Cash-flows beyond the twelve-year period are projected using the 4.7% long-term average *inflation rate* in Russia. Decrease in inflation rate by 1% would result in the reduction of CGU recoverable amount by 4%.

As a result of this analysis, the entire amount of goodwill of 312,833 was impaired. An impairment charge of 312,833 is recorded within operating expenses in the income statement (Note 20).

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Cost						
As at 1 January 2008	2,992,013	20,080,876	6,884,990	6,079,574	8,035,098	44,072,551
Additions	57	34,064	1,355,204	5,405	11,288,910	12,683,640
Additions due to contribution to charter capital	1,948,500	139,981	618,884	30,020	-	2,737,385
Additions due to acquisition of subsidiaries	35,035	386,088	151,968	46,480	128,468	748,039
Disposals	(12,230)	(3,736)	(4,797)	(68,686)	(109,194)	(198,643)
Revaluation	4,176,454	35,859,600	8,345,579	2,267,185	2,181,071	52,829,889
Transfer	3,255,930	909,306	2,386,592	460,751	(7,012,579)	-
As at 31 December 2008	12,395,759	57,406,179	19,738,420	8,820,729	14,511,774	112,872,861
Additions	-	1,325	1,360,218	-	10,197,174	11,558,717
Disposals	(8,843)	(27,367)	(16,569)	(66,089)	(7,784)	(126,652)
Transfer	2,705,083	1,555,624	4,079,660	1,161,190	(9,501,557)	-
As at 31 December 2009	15,091,999	58,935,761	25,161,729	9,915,830	15,199,607	124,304,926
Accumulated depreciation and impairment						
As at 1 January 2008	(1,214,065)	(10,445,074)	(2,243,306)	(5,025,532)	(1,892,139)	(20,820,116)
Charge for the year	(137,541)	(796,976)	(554,018)	(213,517)	-	(1,702,052)
Disposals	1,164	1,994	2,712	62,005	-	67,875
Revaluation	(687,660)	(19,066,791)	(2,623,335)	(1,804,990)	-	(24,182,776)
As at 31 December 2008	(2,038,102)	(30,306,847)	(5,417,947)	(6,982,034)	(1,892,139)	(46,637,069)
Charge for the year	(428,276)	(2,286,802)	(936,861)	(266,138)	-	(3,918,077)
Impairment loss on initial recognition of finance leases (Note 15)	-	-	(490,894)	-	-	(490,894)
Disposals	941	12,122	6,322	53,960	-	73,345
As at 31 December 2009	(2,465,437)	(32,581,527)	(6,839,380)	(7,194,212)	(1,892,139)	(50,972,695)
Net book value as at 31 December 2008	10,357,657	27,099,332	14,320,473	1,838,695	12,619,635	66,235,792
Net book value as at 31 December 2009	12,626,562	26,354,234	18,322,349	2,721,618	13,307,468	73,332,231

Impairment analysis

Impairment analysis on property, plant and equipment was carried as at 31 December 2009. The analysis 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.

As a result of the analysis the Group didn't identify any impairment of property, plant and equipment as at 31 December 2009.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment (continued)

Revaluation

Property, plant and equipment were revalued to fair value as at 31 December 2008. 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 66,235,792. This value was then apportioned between the individual items of property, plant and equipment prorata on the basis of their depreciated replacement cost;
- The following methods of the calculation of revenue of the Group were applied: up to the year 2009, application of 'cost plus' method; from 2010 and onwards – application of the method of economically reasonable rate of return (ROR);
- The following assumptions have been used by the Group in performing the revaluation:

	2009	2010-2011	2012-2013	2014-2020
Transmission revenue tariff increase, %	-	29%-34%	20%-25%	2%-8%
Transmission volume increase, %	(0.4%)-(2.9%)	0.4%-1.7%	0.1%-0.5%	0%-0.5%
Normal network technological losses, %	12.9%-13.5%	12.3%-12.4%	12.3%-12.4%	12.3%-12.4%
Weighted average cost of capital (WACC)	15.9%	13%-14.5%	11.5%	11.5%

As a result of the revaluation, 29,445,021 was credited to the asset revaluation reserve as at 31 December 2008, while 797,908 was charged to the income statement for 2008 as an impairment loss.

The effect of revaluation as at 31 December 2008 was accounted for as follows:

	Production premises	Power lines	Equipment, power equipment, sub-stations	Other	Assets under construction	Total
Impairment recognized in income statement in 2008	(839,650)	(727,989)	(1,527,055)	(309,285)	(719,742)	(4,123,721)
Reversal of impairment previously recognized in income statement in 2008	443,050	1,972,693	752,776	542	156,752	3,325,813
Revaluation recognized within equity in 2008	4,095,520	15,804,028	6,528,613	795,132	2,744,061	29,967,354
Reversal of revaluation previously recognized within equity in 2008	(210,126)	(255,923)	(32,090)	(24,194)	-	(522,333)
Total	3,488,794	16,792,809	5,722,244	462,195	2,181,071	28,647,113

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment (continued)

As at 31 December 2009 and 2008 the carrying value of property, plant and equipment received under finance lease contracts was as follows:

	Power equipment	Vehicles	Total
Cost			
Balance as at 31 December 2008	2,603,585	34,828	2,638,413
Additions	1,359,604	-	1,359,604
Transfer to property, plant and equipment	(288,311)	(23,044)	(311,355)
Balance as at 31 December 2009	3,674,878	11,784	3,686,662
Accumulated depreciation			
Balance as at 31 December 2008	(82,900)	(22,818)	(105,718)
Charge for the year	(61,068)	(9,404)	(70,472)
Impairment loss on finance leases	(490,894)	-	(490,894)
Transfer to property, plant and equipment	26,983	23,044	50,027
Balance as at 31 December 2009	(607,879)	(9,178)	(617,057)
Net book value as at 31 December 2008	2,520,685	12,010	2,532,695
Net book value as at 31 December 2009	3,066,999	2,606	3,069,605

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

Acquisitions under finance leases of 1,359,604 (2008: 1,326,840) have been excluded from the consolidated statement of cash flows, so investing activities in the consolidated statement of cash flows represent actual cash transactions.

6. Advances for construction of property, plant and equipment

Advances of 4,135,536 paid to construction contractors (31 December 2008: 5,025,306) are stated net of an impairment provision of 176,502 (31 December 2008: 110,805). Movements in the provision for impairment of advances to construction are disclosed in Note 13.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

7. Available-for-sale investments

	%	31 December 2009	31 December 2008
OJSC Petersburg Sales Company	12.5%	303,000	196,000
OJSC FSK UES	0.051%	189,480	71,700
OJSC North-West Energy Management Company	12.5%	33,300	36,700
Other	-	133	133
Total		525,913	304,533

The fair value of the quoted ordinary shares (OJSC FSK UES) was determined by the reference to published price quotations in an active market.

The fair value of the unquoted ordinary and preference shares was estimated using either guidelines-company method using industry multipliers within market approach (for OJSC Petersburg Sales Company) or income method (OJSC North-West Energy Management Company) using the following rates of weighted-average cost of capital:

	2009, %	2010 – 2021, %
OJSC Petersburg Sales Company	18.1	17.4 – 14.9
OJSC North-West Energy Management Company	21.1	14.6 – 18.9

8. Other non-current assets

	31 December 2009	31 December 2008
VAT recoverable after more than 12 months	197,800	810,632
Other non-current assets	74,510	76,794
Total	272,310	887,426

9. Cash and cash equivalents

	31 December 2009	31 December 2008
Bank deposits reclaimable on demand – RR	2,057,208	1,673,179
Bank accounts and cash in hand – RR	791,593	406,671
Promissory notes	100,000	419,000
Total	2,948,801	2,498,850

As at 31 December 2009 the Group had open deposit agreements with original maturity of less than 3 months placed with a number of banks bearing an interest of 3-11 % p.a. if the Group maintains minimum cash balances. Interest receivable as at 31 December 2009 included in finance income (Note 21) comprised 50,467 (2008: 346,970)

Promissory notes have been issued by banks and have original maturity of less than 3 months.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

10. Accounts receivable

	31 December 2009	31 December 2008
Trade receivables net of impairment provision of 410,130 (2008: 631,427)	1,114,615	1,035,210
Other accounts receivable net of impairment provision of 39,889 (2008: 63,533)	217,810	174,126
Total	1,332,425	1,209,336

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 fulfill 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 (Note 13). The components of this provision are a specific provision for individual losses. Management believes that the Group will be able to realise the net receivable amount through direct collections and non-cash settlements, and therefore the recorded value approximates their fair value. Movements in the provision for impairment of accounts receivable are disclosed in Note 13.

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 2009 and 2008, the analysis of trade receivables is as follows:

	31 December 2009			31 December 2008		
	Total	Neither past due nor impaired	Past due not impaired	Total	Neither past due nor impaired	Past due not impaired
Trade receivables (electricity transmission services)	836,123	375,022	461,101	797,639	511,623	286,016
Trade receivables (technological connection services)	278,492	45,163	233,329	237,571	204,743	32,828
Total trade accounts receivable	1,114,615	420,185	694,430	1,035,210	716,366	318,844
Other accounts receivable	217,810	217,810	-	174,126	174,126	-

As at 31 December 2009 the amounts which are past due but not impaired mainly represent receivables from electricity transmission customers who have failed to make a payment when contractually due.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

11. Inventories, net of impairment

	31 December 2009	31 December 2008
Materials	254,304	112,949
Spare parts	62,351	79,795
Uniform	11,194	15,336
Tools	7,787	9,100
Other inventories	25,530	18,304
Total	361,166	235,484

Inventories are stated net of impairment of 163,205 as at 31 December 2009 (as at 31 December 2008: 158,654).

12. Other current assets

	31 December 2009	31 December 2008
VAT receivable net of impairment provision of 53,924 (2008: 65,154)	3,218,752	3,109,880
Fair value of the derivative instrument	1,075,836	1,891,854
Prepayments and advances given to suppliers net of impairment provision of 22,615 (2008: 21,710)	372,231	1,094,070
Promissory notes	51,458	243,159
Income tax and other taxes receivable	1,275	6,701
Short-term bank deposit	-	40,000
Other current assets	1,076	1,983
Total	4,720,628	6,387,647

Fair value of the derivative instrument (swap contract) is calculated by discounting future cash flows determined by conditions and payments schedule of the swap agreement using forward rates of similar instruments at the reporting date (Note 15). Change in fair value of the swap contract for the year ended 31 December 2009 is included in finance expense (Note 22).

Promissory notes issued by OJSC Bank Tavrichesky stated at amortized cost and maturing in January 2010 were received as a settlement for trade accounts receivable.

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

13. 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 2008	505,537	76,953	33,938	64,261	39,331	720,020
Charge for the year	199,509	19,932	9,841	63,548	37,372	330,202
Released	(73,619)	(31,731)	(22,069)	(17,004)	(13,170)	(157,593)
As at 31 December 2008	631,427	65,154	21,710	110,805	63,533	892,629
Charge for the year	221,763	16,823	11,220	107,857	1,467	359,130
Released	(98,175)	(11,287)	(8,725)	(4,594)	(10,297)	(133,078)
Utilized	(344,885)	(16,766)	(1,590)	(37,566)	(14,814)	(415,621)
As at 31 December 2009	410,310	53,924	22,615	176,502	39,889	703,060

14. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
	Ordinary shares	926,021,679	926,021,679	4,866,115
Preference shares	93,264,311	93,264,311	625,603	625,603
Total	1,019,285,990	1,019,285,990	5,491,718	5,491,718

Share capital

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

In 2008 the Group completed a closed placement of 234,167,535 ordinary shares announced in 2007. Total additional capital raised comprised 5,783,048. Additional shares were subscribed to by the City of St. Petersburg and some of the existing shareholders that paid 3,045,663 in cash altogether. The remaining amount of 2,737,385 represents a fair value of fixed assets contributed by the City of St. Petersburg.

The excess of fair value of the above mentioned contribution of 5,783,048 over par value of issued shares of 234,168 was recognized as share premium of 5,548,880.

Ordinary shares carry voting rights with no guarantee of dividends.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

14. Equity (continued)

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 statutory accounting rules. Statutory net profit of the Company as at 31 December 2009 amounted to 3,258,036 (as at 31 December 2008: 1,539,618).

Dividend declared and paid

In 2009 dividends for the year ended 31 December 2008 were declared in the amount of 1.6508 Rubles per preference share (nil per ordinary share). The total amount of dividends accrued in 2009 for the year ended 31 December 2008 was 153,961 (31 December 2007: 91,607). In 2010 dividends for the year ended 31 December 2009 were not declared by the date of report issue.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

14. Equity (continued)

Other reserves

	Asset revaluation reserve	Net unrealised gains on available-for- sale investments	Total
As at 1 January 2008	4,937,218	249,817	5,187,035
Revaluation of property, plant and equipment, net of tax effect of 5,629,149	23,815,872	-	23,815,872
Unrealised losses on available-for-sale investments, net of tax effect of 52,717	-	(145,127)	(145,127)
As at 31 December 2008	28,753,090	104,690	28,857,780
Unrealised gain on available-for-sale investments, net of tax effect of 44,276	-	177,104	177,104
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 7,863	(31,458)	-	(31,458)
As at 31 December 2009	28,721,632	281,794	29,003,426

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

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

15. Borrowings

	Currency	Effective interest rate	Maturity date	31 December 2009	31 December 2008
Bonds issued by the Group					
series 02	Rubles	8.54%	2012	2,988,301	2,981,472
series 03	Rubles	8.02%	2012	2,987,237	2,981,534
		13.8% -			
Bank loans (local currency denominated)	Rubles	14%	2011	3,000,000	-
		Libor +			
Bank loans (foreign currency denominated)	USD	1.25%	2010	6,026,914	5,834,784
Finance lease liabilities	Rubles		2011	1,682,028	1,584,646
Total borrowings				16,684,480	13,382,436
Less: current portion of finance lease liabilities				(583,902)	(436,143)
		Libor +			
Less: current portion of bank loans	USD	1.25%	2010	(6,026,914)	-
Current portion of long-term borrowings				(6,610,816)	(436,143)
Long-term borrowings				10,073,664	12,946,293

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

15. Borrowings (continued)

Bonds

As at 31 December 2009 the Group had outstanding 2nd and 3rd issue bonds.

In February 2007 the Group registered the 2nd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the 1st coupon were due on the 181st day from the date of bond placement, and other coupon payments are payable every 184th day. The interest rate under coupons is set at 8.54% p.a. The bonds mature in January 2012, in 1820 days from the date of placement with no option for early redemption. In 2009 the Group fully met its coupon obligations under the 4th and 5th coupons at 8.54% p.a. in the total amount of 255,480 (2008: under the 2nd and 3rd coupons - 255,480). Coupon payment per bond was 42.58 Rubles. As at 31 December 2009 the outstanding 2nd issue bonds of 2,988,301 were classified as long-term debt (as at 31 December 2008: 2,981,472).

In April 2007 the Group registered the 3rd issue of 3,000,000 certified coupon bonds with a par value of 1,000 Rubles each carrying 10 interest-bearing coupons. Payments under the 1st coupon are due on the 181st day from the date of bond placement, and other coupon payments are effected every 184 day. The interest rate under coupons is set at 8.02% p.a. The bonds mature in April 2012, in 1820 days from the date of placement with no option for early redemption. In 2009 the Group fully met its coupon obligations under the 4th and 5th coupons at 8.02% p.a. in the total amount of 239,940 (2008: under the 2nd and 3rd coupons - 239,940). Coupon payment per bond was 39.99 Rubles. As at 31 December 2009 the outstanding 3rd issue bonds of 2,987,237 were classified as long-term debt (as at 31 December 2008: 2,981,534).

Loans

The long-term bank loans of 3,000,000 received by the Group in the 4th quarter of 2009 are represented by 3 loans of 1,000,000 each. One loan for OJSC AKB Svyaz-bank bears interest of 14% (starting from 1 January 2010 – 12.5%) and is repayable on 25 October 2011. The other two loans from OJSC Bank VTB Severo-Zapad bearing interest of 13.8% (starting from 1 January 2010 – 12.8%) are repayable on 25 October 2011 and 1 December 2011, respectively.

The short-term currency-denominated syndicated loan from Barclays Bank of 200 mln USD (6,026,914) is stated at the USD/Ruble exchange rate at 31 December 2009. In 2007 the Group's management has entered into an interest/currency swap agreement in connection with this loan, whereby the loan is converted into 4,900,000 Russian rubles, and the interest is payable at a fixed interest rate of 8.42% (31 December 2008: 8.42%). The loan is repayable in 4 equal quarterly installments in 2010.

The Group did not designate the above interest rate and currency swap derivative as hedging instrument. Therefore, this financial instrument was classified as financial asset at fair value through profit and loss with the loss for year 2009 amounting to 816,018 (2008: gain of 1,887,531) (Notes 22, 21). Fair value of the derivative is calculated by discounting future cash flows determined by condition and payments schedule of the agreement using forward rates of similar instruments at the reporting date. The derivative is repayable on the same dates as the loan.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

15. Borrowings (continued)

Loans (continued)

The Group has to comply with certain conditions, including maintenance of certain financial performance standards. Under the syndicated loan agreement with Barclays Bank the Group has to maintain the following financial performance ratios (based on statutory financial statements):

- Net debt to EBITDA ratio – maximum 4:1 for the first year of the loan (from 12 December 2007 to 12 December 2008), 3:1 for the rest of the loan period (from 13 December 2008 to maturity date);
- EBITDA to net interest ratio – minimum 4:1;
- Material assets to the total assets ratio – minimum 0.6;
- No pledges of any assets;
- Total debt – maximum 40 million US Dollars (except for this loan and the existing debts at the moment of the loan issuance);
- Dividends for a year < 100% of net profit for the year under the Russian Accounting Standards;
- Audited consolidated financial statements for the years ending on and after 31 December 2008 – on or earlier than 28 June of the next year;
- Un-audited quarterly consolidated financial statements – on or earlier than on the 90th day after the preceding quarter-end;
- Un-audited consolidated financial statements, forwarded to the tax authorities, – on or earlier the 90th day after the preceding year end.

The Group has to comply with the following restrictions:

- Assets sales or lease maximum 5 million US Dollars if not in a usual course of business or under the Restructuring approved by the Bank;
- Restructuring of the Group if not approved by the Bank;
- Acquisition or establishment of another company without the Bank's approval;
- Repurchase of own shares (if not required by law or a court order);
- Overdue payments (if not a technical error or if not repaid in 3 days).

As at 31 December 2009 and for the year then ended, the Group complied with all of the above restrictions and covenants.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

15. Borrowings (continued)

Finance lease liabilities

As at 31 December 2009 the Group entered into lease agreements for electricity transmission equipment and transport vehicles which have been delivered to the Group by the reporting date and, therefore, are recognized in these consolidated financial statements. Future minimum lease payments under finance lease are as follows:

	During the next year	During 2-5 years	Over 5 years	Total
As at 31 December 2009				
Future minimum lease payments	915,129	1,348,503	-	2,263,632
Less: future interest expenses	(331,227)	(250,377)	-	(581,604)
Present value of future minimum lease payments	583,902	1,098,126	-	1,682,028
As at 31 December 2008				
Future minimum lease payments	859,055	1,592,408	-	2,451,463
Less: future interest expenses	(422,912)	(443,905)	-	(866,817)
Present value of future minimum lease payments	436,143	1,148,503	-	1,584,646

All lease agreements are fully secured against the Group's leased assets (Note 5).

In 2009 and 2008, the Group's primary lessors were LLC Sevzapleasing and LLC Rosgazleasing.

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 490,894 was immediately recognized within operating expenses in the income statement for 2009 (Note 20).

The Group had entered into a number of finance leases under which equipment was not received as at 31 December 2009. 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 2009 is 1,878,475 (31 December 2008: 3,031,863). Future interest expense is 1,007,011 (31 December 2008: 2,279,553). As at 31 December 2009 the Group paid advances of 1,058,499 under these leases (31 December 2008: 933,439).

16. Post-employment benefit liabilities

The Group makes payments to the Government pension fund for its employees. Such contributions are included in the unified social tax ("UST") calculated by the Group using regressive scale and are charged to expense when incurred during the employee's service period. Total contributions for UST amounted to 326,451 during the year ended 31 December 2009 (2008: 419,540).

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.

OJSC Lenenergo

Notes to the Consolidated Financial Statements (continued)

16. Post-employment benefit liabilities (continued)

The majority of employees are eligible for defined benefit plans which provide an old age retirement pension. The plans provide for payments of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men. The amount of payments is calculated using the formula according to which the amount of benefit depends on a number of parameters, including an employee's salary at the retirement date and 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 2009 there were 5,923 working employees participating to the defined benefit plan of the Group and 1,389 pensioners (31 December 2008: 5,758 and 1,392 respectively).

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

As at 31 December 2009 and 2008 net liabilities under defined benefit and other post-employment benefit plans comprised the following:

	2009			2008		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Present value of defined benefit obligation	(374,822)	(314,621)	(60,201)	(421,168)	(339,936)	(81,232)
Unrecognized net actuarial gains	(29,208)	(29,208)	-	(11,731)	(11,731)	-
Unrecognized past service cost	109,494	109,494	-	124,586	124,586	-
Net pension liability in the statement of financial position	(294,536)	(234,335)	(60,201)	(308,313)	(227,081)	(81,232)

Changes in the present value of defined benefit obligations in 2009 and 2008 were as follows:

	2009			2008		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Net defined benefit obligation as at 1 January	421,168	339,936	81,232	296,924	230,627	66,297
Interest cost on benefit obligation	33,148	27,797	5,351	22,959	18,578	4,381
Current service cost	17,653	12,511	5,142	15,675	9,461	6,214
Past service cost (recognized and unrecognized)	(27,676)	(19,146)	(8,530)	114,386	114,386	-
Benefits paid	(29,094)	(22,121)	(6,973)	(25,600)	(16,583)	(9,017)
Actuarial (gains)/losses on obligation	(20,914)	(17,232)	(3,682)	(3,176)	(16,533)	13,357
Curtailment gain	(19,463)	(7,124)	(12,339)	-	-	-
Net defined benefit obligation as at 31 December	374,822	314,621	60,201	421,168	339,936	81,232

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

16. Post-employment benefit liabilities (continued)

The movements in the net pension liability in 2009 and 2008 were as follows:

	2009			2008		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Net pension liability as at 1 January	308,313	227,081	81,232	277,413	211,116	66,297
Net expense	15,317	29,375	(14,058)	56,500	32,548	23,952
Benefits paid	(29,094)	(22,121)	(6,973)	(25,600)	(16,583)	(9,017)
Net pension liability as at 31 December	294,536	234,335	60,201	308,313	227,081	81,232

Net expense under the defined benefit plans in 2009 and 2008 was as follows:

	2009			2008		
	TOTAL	Post employment benefits	Long-term employee benefits	TOTAL	Post employment benefits	Long-term employee benefits
Current service cost	17,653	12,511	5,142	15,675	9,461	6,214
Interest cost	33,148	27,797	5,351	22,959	18,578	4,381
Net actuarial loss recognized in the period	(3,682)	-	(3,682)	13,357	-	13,357
Recognized past service cost	(12,585)	(4,055)	(8,530)	4,509	4,509	-
Curtailement gain	(19,217)	(6,878)	(12,339)	-	-	-
Net expense for the defined benefit plan	15,317	29,375	(14,058)	56,500	32,548	23,952

Gain/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:

	2009	2008
Discount rate (actuarial rate of return), %	9.5	9.0
Estimated future salary increases, %	8.0	8.0
Estimated future rate of inflation, %	6.5	6.5

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

	2009	2008	2007	2006
Defined benefit obligation	(374,822)	(421,168)	(296,924)	(249,891)
Experience adjustments on plan liabilities	5,715	56,625	(32,967)	11,508

The Group expects to contribute 29,927 to its defined benefit pension plans in 2010.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

17. Other non-current liabilities

	31 December 2009	31 December 2008
Long-term advances received	1,223,292	5,293,574
Trade accounts payable	51,581	83,663
Total	1,274,873	5,377,237

18. Trade and other payables

	31 December 2009	31 December 2008
Trade accounts payable	2,914,569	3,875,059
Provisions	310,273	132,076
Interest accrued on bank loans and coupon bonds	246,430	235,427
Salaries payable	163,893	140,860
Other taxes payable	67,916	77,868
Other	275,496	137,611
Total	3,978,577	4,598,901

Movements in provisions during the reporting period were as follows:

	Litigations	Employee related	Total
As at 1 January 2009	67,400	64,676	132,076
Arising during the period	120,091	358,993	479,084
Utilised	(54,634)	(233,950)	(288,584)
Reversed	(12,303)	-	(12,303)
As at 31 December 2009	120,554	189,719	310,273

Provision for litigations relates to the claims brought against the Group in the ordinary course of business. The balance of the provision as at 31 December 2009 is expected to be utilised in 2010. 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.

Employee-related provisions relates to annual bonus and unused vacation.

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Notes to the Consolidated Financial Statements (continued)

19. Revenue

	2009	2008
Network transmission of electricity	19,335,492	15,064,055
Technological losses at the normal (expected) level	(3,919,789)	(3,374,311)
Network transmission of electricity, net of normal (expected) losses	15,415,703	11,689,744
Technological connection to electricity grids	6,638,230	5,670,549
Other revenue	746,457	553,343
Total	22,800,390	17,913,636

In 2009 electricity transmission revenue before technological losses at the normal (expected) level from OJSC Peterburg Sales Company (hereinafter "OJSC PSC") and LLC Energia-holding, both state controlled, amounted to 13,406,763 (2008: 10,322,861) and 2,878,569 (2008: 2,130,097), respectively, comprising 83% of the total revenue from transmission of electricity before the technological losses at the normal (expected) level. Technological connection fees of 242,389 (2008: 498,339) were settled by contribution of property, plant and equipment items from the customers.

20. Operating expenses

	2009	2008
Transmission fee	6,824,717	5,588,872
Depreciation (Note 5)	3,918,077	1,702,052
Payroll and payroll taxes	2,819,333	2,505,066
Repairs and maintenance	831,428	690,788
Rent	503,256	432,811
Impairment loss on finance leases (Note 15)	490,894	-
Impairment of goodwill (Note 4)	312,833	-
Telecommunication and information services	244,672	216,852
Electric metering services	242,584	650,314
Provision for impairment of receivables (Note 13)	226,052	172,609
Consulting, legal and audit services	216,913	139,590
Raw materials and supplies	210,149	230,994
Taxes other than income tax	185,303	141,634
Social expenses	161,626	148,080
Impairment of intangible asset (Note 4)	139,000	-
Amortisation of intangible assets (Note 4)	128,249	77,880
Internal security costs	110,469	112,021
Utilities	78,076	64,613
Agency services	41,933	99,175
Provision for impairment of inventories	3,512	42,431
Technical losses of electricity in transmission through own network in excess of the normal (expected) level	-	4,010
Property, plant and equipment impairment loss	-	797,908
Other operating expenses	800,100	789,878
Total	18,489,176	14,607,578

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

21. Finance income

	2009	2008
Interest receivable	50,467	346,970
Dividends received	16,072	26,365
Change in fair value of swap (Note 15)	-	1,887,531
Other finance income	11,321	30,776
Total	77,860	2,291,642

22. Finance expenses

	2009	2008
Change in fair value of swap (Note 15)	816,018	-
Interest expense on loans	524,561	424,811
Interest expense on bonds	511,734	504,650
Interest expense on finance leases	185,943	411,761
Other finance expenses	46,172	30,852
Total	2,084,428	1,372,074

23. Income tax

Consolidated income statement	2009	2008
Current income tax:		
Current income tax charge	1,396,247	1,023,696
Reverse of tax accruals under favourable court resolutions (Note 25)	(1,226,564)	-
Deferred income tax:		
Relating to origination and reversal of temporary differences	(625,169)	(83,747)
Relating to changes in tax rates	-	269,694
Income tax (benefit)/expense reported in the income statement	(455,486)	1,209,643

Consolidated statement of comprehensive income

	2009	2008
Deferred tax related to items charged or credited directly to equity during the year:		
Unrealised gain/(loss) on available-for-sale financial assets	44,276	(52,717)
Net gain on revaluation of property, plant and equipment	-	5,629,149
Income tax charged directly to equity	44,276	5,576,432

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

23. Income tax (continued)

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

	2009	2008
Accounting profit before tax	2,131,886	3,047,627
Theoretical tax expense at statutory income tax rate of 20% (24%)	426,377	731,430
Non-deductible expenses	282,134	208,519
Change of tax rate (24% to 20%)	-	269,694
Reverse of tax accruals under favourable court resolutions (Note 25)	(1,226,564)	-
Impairment of goodwill (see Note 4)	62,567	-
Income tax (gain)/expense reported in the consolidated income statement	(455,486)	1,209,643

Deferred income tax as at 31 December 2009 relates to the following:

	Movement during 2009 recognized in			31 December 2009
	31 December 2008	Equity	Profit or loss for the period	
<i>Tax effect of deferred tax assets:</i>				
Impairment provision for accounts receivable	178,526	-	(39,399)	139,127
Inventory impairment provision	31,523	-	(1,750)	29,773
Foreign exchange differences on swapped loan	189,813	-	39,958	229,771
Post-employee benefits liability	61,662	-	(2,755)	58,907
Employee-related accruals	7,370	-	24,179	31,549
Impairment of intangible assets	-	-	27,800	27,800
Others	34,886	-	43,961	78,847
Deferred tax assets, total	503,780	-	91,994	595,774
<i>Tax effect of deferred tax liabilities:</i>				
Property, plant and equipment	(6,002,880)	-	386,340	(5,616,540)
Revaluation of available-for-sale investments	16,019	(44,276)	-	(28,257)
Discounting of long-term trade accounts payable	(11,472)	-	7,119	(4,353)
Revaluation of SWAP to fair value	(381,227)	-	166,060	(215,167)
Discounting of bonds issued	(7,399)	-	2,507	(4,892)
Deferred expenses	19,193	-	(28,851)	(9,658)
Deferred tax liabilities, total	(6,367,766)	(44,276)	533,175	(5,878,867)
Total deferred tax liabilities, net	(5,863,986)	(44,276)	625,169	(5,283,093)

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

23. Income tax (continued)

	<u>Movement during 2008 recognized in</u>			<u>Movements due to change in tax rates recognized in</u>			31 December 2008
	31 December 2007 (as restated)	Equity	Profit or loss for the period	Additions with acquired subsidiaries	Equity	Profit or loss for the period	
<i>Tax effect of deferred tax assets:</i>							
Impairment provision for accounts receivable	172,805	-	34,522	-	-	(28,801)	178,526
Inventory impairment provision	27,894	-	8,486	(208)	-	(4,649)	31,523
Deferred expenses	7,959	-	12,561	-	-	(1,327)	19,193
Revaluation of available-for-sale investments	(78,889)	39,569	50,630	-	13,148	(8,439)	16,019
Foreign exchange differences on swapped loan	(12,591)	-	200,305	-	-	2,099	189,813
Post-employee benefits liability	66,579	-	6,180	-	-	(11,097)	61,662
Employee-related accruals	16,107	-	(6,053)	-	-	(2,684)	7,370
Others	30,807	-	4,822	4,392	-	(5,135)	34,886
Deferred tax assets, total	230,671	39,569	311,453	4,184	13,148	(60,033)	538,992
<i>Tax effect of deferred tax liabilities:</i>							
Property, plant and equipment	(273,342)	(5,889,004)	156,493	(42,584)	259,855	(214,298)	(6,002,880)
Discounting of long-term trade accounts payable	(15,802)	-	(5,585)	7,281	-	2,634	(11,472)
Revaluation of SWAP to fair value	(1,038)	-	(380,362)	-	-	173	(381,227)
Discounting of bonds issued	(10,977)	-	1,748	-	-	1,830	(7,399)
Deferred tax liabilities, total	(301,159)	(5,889,004)	(227,706)	(35,303)	259,855	(209,661)	(6,402,978)
Total deferred tax liabilities, net	(70,488)	(5,849,435)	83,747	(31,119)	273,003	(269,694)	(5,863,986)

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

24. Earnings per share

	31 December 2009	31 December 2008
Weighted average number of outstanding ordinary shares (thousands)	926,022	730,882
Weighted average number of outstanding preference shares (thousands)	93,264	93,264
Dividends paid to holders of ordinary shares	-	-
Dividends paid to holders of preference shares	153,961	91,607
Total income less dividends paid	2,424,520	1,742,053
- attributable to holders of ordinary shares	2,202,678	1,544,915
- attributable to holders of preference shares	221,842	197,138
Earnings per ordinary share – basic and diluted (Rubles)	2.38	2.11
Earnings per preference share – basic and diluted (Rubles)	2.38	2.11

25. Commitments and contingencies

Commitments to purchase property, plant and equipment

Future capital expenditures under the signed contracts amounted to 18,865,916 as at 31 December 2009 (31 December 2008: 15,338,332).

As at 31 December 2009 the Group provided the following guarantees for the loans granted by OJSC Bank VTB Severo-Zapad to the Group's lessor (CJSC Rosgazleasing):

Guarantee	Underlying loan agreement	Maturity date	Amount of loan guaranteed
CJSC Rosgazleasing	№107/07 dated 22 August 2007	22 August 2012	44,130
CJSC Rosgazleasing	№108/07 dated 22 August 2007	22 August 2012	228,050

Social commitments

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

Political environment

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

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

25. Commitments and contingencies (continued)

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 a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

Tax legislation

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

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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

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

As at 31 December 2008 the Group accrued 1,236,989 of the above-mentioned additional taxes in the financial statements. The Group believed that the tax authority had no legal grounds to charge 113,010 of additional taxes, 161,361 of penalties and 300,061 of late payment interests and did not accrue any provision for related to other taxes of 113,010, late payment interests of 300,061 and penalties of 161,361. In 2009 the Supreme Arbitration Court resolution confirmed the earlier decisions of all court instances in favour of the Group dismissing the claims of 1,226,564. Accordingly, as at 31 December 2009 the Group reversed the accrual of 1,226,564 (Note 23) and the remaining amount of 10,425 has been paid to the tax authorities.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

25. Commitments and contingencies (continued)

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 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.

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 2009 and 2008 with the following related parties.

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

	31 December 2009	31 December 2008
<i>Accounts receivable, including:</i>		
Advances given	916	1,042
OJSC North-West Energy Management Company	674	1,005
OJSC EnergoUchet	242	37
<i>Accounts payable, including</i>		
Trade accounts payable	6,210	302
MRSK-Holding	5,664	-
OJSC North-West Energy Management Company	546	302
Other accounts payable	44,198	44,198
MRSK-Holding	44,198	44,198

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

26. Related party transactions (continued)

	<u>31 December 2009</u>	<u>31 December 2008</u>
Dividens received		
OJSC North-West Energy Management Company	-	4,888

Transactions with other related parties

Non-government pension fund Electroenergetiki

The outstanding balances with NPF Electroenergetiki were as follows:

	<u>31 December 2009</u>	<u>31 December 2008</u>
Other accounts receivable	112,967	91,724

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 long-term employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement, was as follows:

	<u>2009</u>	<u>2008</u>
Short-term employee benefits	66,551	71,145
Long-term employee benefits	-	5,028
Termination benefits	9,276	3,250
Total	<u>75,827</u>	<u>79,423</u>

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 2009 and 2008 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 the Government of the Russian Federation and its related parties (Note 19), that accounted for greater than 10% of its revenue during the years ended 31 December 2009 and 2008.

28. Financial risk management

The Group's major financial liabilities, apart from derivatives, 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.

In addition, during 2007 the Group has entered into a transaction involving a derivative instrument, namely, a currency/interest rate swap with a view to manage interest rate and foreign exchange risks arising from the changes in floating interest rates and foreign exchange rates which affect its currency denominated borrowings. It is, and has been throughout 2009 and 2008, the Group's policy that no trading in derivatives shall be undertaken.

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.

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Financial risk management (continued)

Credit risk

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

The Group's revenue from two largest customers OJSC PSC and 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, financial assets at fair value through profit and loss and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risk 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, debentures, preference shares and finance leases.

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

Year ended 31 December 2009	1 year	2 years	3-5 years	Over 5 years
Bonds issued	155,548	-	6,000,000	-
Interest-bearing loans (Note 15)	4,990,882	3,000,000	-	-
Trade and other accounts payable	3,212,936	1,800	5,400	102,551
Other financial obligations	1,820,740	796,962	551,541	-
Total	10,180,106	3,798,762	6,556,941	102,551

Year ended 31 December 2008	1 year	2 years	3-5 years	Over 5 years
Bonds issued	151,765	-	6,000,000	-
Interest-bearing loans (Note 15)	83,662	4,900,000	-	-
Trade and other accounts payable	4,174,283	67,805	5,400	104,201
Other financial obligations	859,064	703,462	888,937	-
Total	5,268,774	5,671,267	6,894,337	104,201

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Financial risk management (continued)

Fair values

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

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	2,948,801	2,948,801	2,498,850	2,498,850
Available-for-sale investments	525,913	525,913	304,533	304,533
Loans and receivables	1,383,883	1,383,883	1,493,110	1,493,110
Derivative financial instruments	1,075,836	1,075,836	1,891,854	1,891,854
Financial liabilities				
<i>Interest-bearing loans and borrowings:</i>				
Obligations under finance leases	(1,682,028)	(1,682,028)	(1,584,646)	(1,584,646)
Floating rate borrowings	(6,026,914)	(6,026,914)	(5,834,784)	(5,834,784)
Long-term fixed rate borrowings	(8,975,538)	(8,692,200)	(5,963,006)	(3,374,700)
Short-term part of borrowings	(246,430)	(246,430)	(235,427)	(235,427)

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

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value.

	31 December			
	2009	Level 1	Level 2	Level 3
Available-for-sale investments	525,913	189,480	-	336,433
Derivative financial instruments	1,075,836	-	1,075,836	-

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 or models supported (Level 3). For these instruments the fair value is estimated using other valuation techniques as disclosed in Note 7.

During the year ended 31 December 2009 there were no transfers among any levels of fair value measurements. The movements within Level 1 and Level 3 since 31 December 2008 were a fair value increase of 177,104 (net of tax effect of 44,276), which have been recorded in other comprehensive income. The movement within Level 2 for the derivative financial instrument (swap) since 31 December 2008 was a fair value decrease of 816,018, reflected in finance expenses (Note 22).

OJSC Lenenergo
Notes to the Consolidated Financial Statements (continued)

28. Financial risk management (continued)

Capital risk management

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

No changes were made in the objectives, policies or processes during the years ending 31 December 2009 and 31 December 2008.

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

	31 December 2009	31 December 2008
Interest-bearing borrowings (Note 15)	15,002,452	11,797,790
Trade and other payables (Note 18)	3,978,577	4,598,901
Less cash and cash equivalents (Note 9)	<u>(2,948,801)</u>	<u>(2,498,850)</u>
Net debt	16,032,228	13,897,841
Ordinary shares (Note 14)	4,866,115	4,866,115
Preference shares (Note 14)	625,603	625,603
Total capital	<u>5,491,718</u>	<u>5,491,718</u>
Capital and net debt	<u>21,523,946</u>	<u>19,389,559</u>
Gearing ratio	74%	72%

As at 31 December 2009 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. Interest rate and foreign exchange risks mainly relate to a syndicated foreign currency denominated loan received in December 2007 from Barclays Bank at a floating interest rate. To manage this, the Group has entered into swap agreement whereby the loan is converted into Russian rubles, and the interest is payable at a fixed interest rate (Note 15).

29. Events after the reporting period

In January 2010 the Group fully met its coupon obligations on the 2nd bond issue under the 6th coupon at 8.54% p.a. in the total amount of 127,740.

In March 2010 the Group entered into an agreement with OJSC Alfa-bank for credit line of 1,225,000 bearing interest of 8.81%. The credit line has been used by the Group to meet its first tranche obligation under the swap agreement with Barclays Bank (Note 15).