

**Open Joint Stock Company Lenenergo**

Unaudited interim condensed consolidated  
financial statements

*For the six months ended 30 June 2013*

Open Joint Stock Company Lenenergo  
Interim condensed consolidated financial statements  
for the six months ended 30 June 2013

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## Report on review of interim condensed consolidated financial statements of OJSC Lenenergo

To the Shareholders and Board of Directors of OJSC Lenenergo

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Lenenergo and its subsidiaries ("the Group") as of 30 June 2013, comprising of the interim consolidated statement of financial position as of 30 June 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



28 August 2013  
St. Petersburg, Russia

OJSC Lenenergo  
Interim condensed consolidated statement of financial position  
as at 30 June 2013  
(in thousands of Russian Rubles)

|  | Note | 30 June 2013<br>(unaudited) | 31 December<br>2012<br>Restated (Note 2) |
|--|------|-----------------------------|--|
| <b>Assets</b>  |      |                             |  |
| <b>Non-current assets</b>                                  |      |                             |  |
| Intangible assets  |      | 759,334                     | 799,687                                  |
| Property, plant and equipment                              | 5    | 89,743,816                  | 86,414,872                               |
| Advances for construction of property, plant and equipment | 6    | 422,428                     | 508,158                                  |
| Available-for-sale investments                             |      | 100                         | 100                                      |
| Other non-current assets                                   |      | 475,940                     | 434,067                                  |
| <b>Total non-current assets</b>                            |      | <u>91,401,618</u>           | <u>88,156,884</u>                        |
| <b>Current assets</b>                                      |      |                             |  |
| Cash and cash equivalents                                  |      | 4,468,397                   | 3,513,622                                |
| Short-term investments                                     |      | 4,482,622                   | 2,266,000                                |
| Accounts receivable  | 7    | 2,390,503                   | 2,077,119                                |
| Inventories  |      | 353,768                     | 279,184                                  |
| Income tax prepayments                                     |      | 23,264                      | -  |
| Other current assets                                       | 8    | 2,871,964                   | 3,099,798                                |
| <b>Total current assets</b>                                |      | <u>14,590,518</u>           | <u>11,235,723</u>                        |
| <b>Total assets</b>  |      | <u>105,992,136</u>          | <u>99,392,607</u>                        |
| <b>Equity and liabilities</b>                              |      |                             |  |
| <b>Equity attributable to equity holders of the parent</b> |      |                             |  |
| Ordinary shares  | 10   | 5,075,155                   | 5,075,155                                |
| Preference shares  | 10   | 625,603                     | 625,603                                  |
| Share premium  |      | 8,303,849                   | 8,303,849                                |
| Other reserves   |      | 20,138,337                  | 20,167,762                               |
| Retained earnings  |      | 9,585,031                   | 9,285,988                                |
|  |      | <u>43,727,975</u>           | <u>43,458,357</u>                        |
| <b>Non-controlling interest</b>                            |      | 32,435                      | 28,994                                   |
| <b>Total equity</b>  |      | <u>43,760,410</u>           | <u>43,487,351</u>                        |
| <b>Non-current liabilities</b>                             |      |                             |  |
| Long-term borrowings, net of current portion               | 11   | 22,117,948                  | 20,637,699                               |
| Deferred tax liabilities                                   |      | 2,470,791                   | 2,356,515                                |
| Post-employment benefits liability                         |      | 678,099                     | 557,367                                  |
| Other non-current liabilities                              |      | 1,759,962                   | 1,786,304                                |
| <b>Total non-current liabilities</b>                       |      | <u>27,026,800</u>           | <u>25,337,885</u>                        |
| <b>Current liabilities</b>                                 |      |                             |  |
| Current portion of long-term borrowings                    | 11   | 10,437,523                  | 7,153,301                                |
| Trade and other payables                                   |      | 9,273,292                   | 8,646,083                                |
| Dividends payable  | 10   | 308,583                     | -  |
| Provisions   |      | 109,950                     | 177,095                                  |
| Income tax payable   |      | 41,171                      | 433,615                                  |
| Advances received from customers                           |      | 15,034,407                  | 14,157,277                               |
| <b>Total current liabilities</b>                           |      | <u>35,204,926</u>           | <u>30,567,371</u>                        |
| <b>Total liabilities</b>                                   |      | <u>62,231,726</u>           | <u>55,905,256</u>                        |
| <b>Total equity and liabilities</b>                        |      | <u>105,992,136</u>          | <u>99,392,607</u>                        |

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

28 August 2013

The accompanying notes form an integral part of these Interim condensed consolidated financial statements 2

OJSC Lenenergo  
Interim condensed consolidated income statement  
for the six months ended 30 June 2013  
(in thousands of Russian Rubles)

|                                     | Note | For the six months ended    |                             |
|-------------------------------------|------|-----------------------------|-----------------------------|
|                                     |      | 30 June 2013<br>(unaudited) | 30 June 2012<br>(unaudited) |
| Revenues                            | 12   | 13,806,216                  | 15,364,169                  |
| Operating expenses                  | 13   | (12,079,509)                | (12,814,214)                |
| <b>Operating profit</b>             |      | <b>1,726,707</b>            | <b>2,549,955</b>            |
| Finance income                      |      | 272,443                     | 95,830                      |
| Finance expenses                    | 14   | (1,249,585)                 | (1,019,535)                 |
| <b>Profit before tax</b>            |      | <b>749,565</b>              | <b>1,626,250</b>            |
| Income tax expense                  | 15   | (167,558)                   | (408,781)                   |
| <b>Net profit for the period</b>    |      | <b>582,007</b>              | <b>1,217,469</b>            |
| Attributed to:                      |      |                             |                             |
| Equity holders                      |      | 578,566                     | 1,216,093                   |
| Non-controlling interest            |      | 3,441                       | 1,376                       |
| Earnings per share (Russian Rubles) | 16   | 0.47                        | 1.15                        |

General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

28 August 2013

OJSC Lenenergo  
Interim condensed consolidated statement of comprehensive income  
for the six months ended 30 June 2013  
*(in thousands of Russian Rubles)*

|   | <b>For the six months ended</b> |                     |                     |
|---|---------------------------------|---------------------|---------------------|
|   | <b>Note</b>                     | <b>30 June 2013</b> | <b>30 June 2012</b> |
|   |                                 | <b>(unaudited)</b>  | <b>(unaudited)</b>  |
| <b>Profit for the period</b>                |                                 | <b>582,007</b>      | 1,217,469           |
| <b>Other comprehensive loss</b>             |                                 |                     |                     |
| Actuarial loss on defined benefit plans     |                                 | (457)               | -                   |
| Income tax effect                           |                                 | 92                  | -                   |
|   |                                 | <b>(365)</b>        | -                   |
| <b>Other comprehensive loss, net of tax</b> |                                 | <b>(365)</b>        | -                   |
| <b>Total comprehensive income</b>           |                                 | <b>581,642</b>      | 1,217,469           |
| Attributed to:                              |                                 |                     |                     |
| Equity holders                              |                                 | 578,201             | 1,216,093           |
| Non-controlling interest                    |                                 | 3,441               | 1,376               |

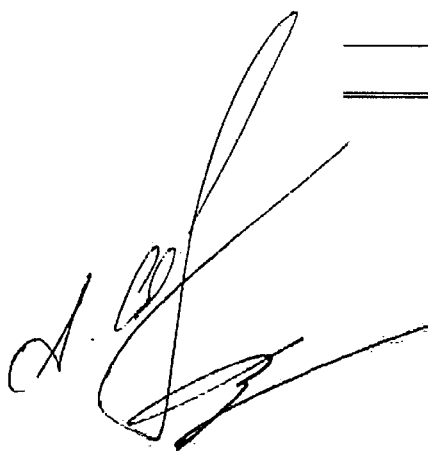
General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

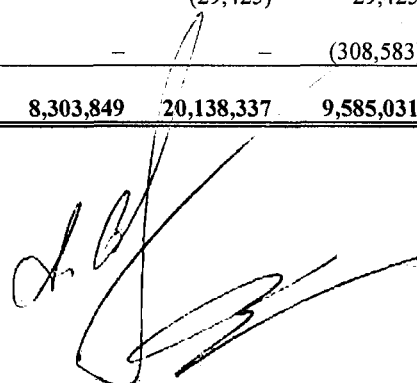
28 August 2013



**OJSC Lenenergo**  
**Interim condensed consolidated statement of changes in equity**  
**for the six months ended 30 June 2013**  
*(in thousands of Russian Rubles)*

|  | Attributable to equity holders of the parent |                   |                  |                   |                   |                   | Non-controlling interest | Total equity      |
|--|--|-------------------|------------------|-------------------|-------------------|-------------------|--------------------------|-------------------|
|  | Ordinary shares                              | Preference shares | Share premium    | Other reserves    | Retained earnings | Total             |                          |                   |
| <b>As at 31 December 2011 Restated (Note 2)</b>  | <b>4,866,115</b>                             | <b>625,603</b>    | <b>5,548,880</b> | <b>22,347,822</b> | <b>9,084,094</b>  | <b>42,472,514</b> | <b>30,777</b>            | <b>42,503,291</b> |
| Profit for the period (unaudited)  | –  | –                 | –                | –                 | 1,216,093         | 1,216,093         | 1,376                    | 1,217,469         |
| Other comprehensive income, net of tax (unaudited)   | –  | –                 | –                | –                 | –                 | –                 | –                        | –                 |
| Total comprehensive income (unaudited)   | –  | –                 | –                | –                 | 1,216,093         | 1,216,093         | 1,376                    | 1,217,469         |
| Ordinary shares issued   | 206,056                                      | –                 | 2,714,520        | –                 | –                 | 2,920,576         | –                        | 2,920,576         |
| Reclassification of asset revaluation reserve on disposed property plant and equipment items, net of tax (unaudited) | –  | –                 | –                | (39,736)          | 39,736            | –                 | –                        | –                 |
| Dividends for 2011 (unaudited)   | –  | –                 | –                | –                 | (141,742)         | (141,742)         | –                        | (141,742)         |
| <b>As at 30 June 2012 (unaudited)</b>  | <b>5,072,171</b>                             | <b>625,603</b>    | <b>8,263,400</b> | <b>22,308,086</b> | <b>10,198,181</b> | <b>46,467,441</b> | <b>32,153</b>            | <b>46,499,594</b> |
| <b>As at 31 December 2012 Restated (Note 2)</b>  | <b>5,075,155</b>                             | <b>625,603</b>    | <b>8,303,849</b> | <b>20,167,762</b> | <b>9,285,988</b>  | <b>43,458,357</b> | <b>28,994</b>            | <b>43,487,351</b> |
| Profit for the period (unaudited)  | –  | –                 | –                | –                 | 578,566           | 578,566           | 3,441                    | 582,007           |
| Other comprehensive loss, net of tax (unaudited)   | –  | –                 | –                | –                 | (365)             | (365)             | –                        | (365)             |
| Total comprehensive income (unaudited)   | –  | –                 | –                | –                 | 578,201           | 578,201           | 3,441                    | 581,642           |
| Reclassification of asset revaluation reserve on disposed property plant and equipment items, net of tax (unaudited) | –  | –                 | –                | (29,425)          | 29,425            | –                 | –                        | –                 |
| Dividends for 2012 (unaudited)   | –  | –                 | –                | –                 | (308,583)         | (308,583)         | –                        | (308,583)         |
| <b>As at 30 June 2013 (unaudited)</b>  | <b>5,075,155</b>                             | <b>625,603</b>    | <b>8,303,849</b> | <b>20,138,337</b> | <b>9,585,031</b>  | <b>43,727,975</b> | <b>32,435</b>            | <b>43,760,410</b> |

General Director  
 Chief Accountant  
 28 August 2013



A.V. Sorochinsky  
 G.V. Kuznetsova

OJSC Lenenergo  
Interim condensed consolidated statement of cash flows  
for the six months ended 30 June 2013  
(in thousands of Russian Rubles)

|   | Note  | For six months ended        |                             |
|---|-------|-----------------------------|-----------------------------|
|   |       | 30 June 2013<br>(unaudited) | 30 June 2012<br>(unaudited) |
| <b>Cash flows from operating activities</b>                   |       |                             |                             |
| Profit before tax   |       | 749,565                     | 1,626,250                   |
| Loss on disposal of property, plant and equipment             |       | 210,958                     | 95,374                      |
| Finance income  |       | (272,443)                   | (95,830)                    |
| Depreciation of property, plant and equipment                 | 5, 13 | 1,920,871                   | 2,063,221                   |
| Amortization of intangible assets                             | 13    | 59,897                      | 44,047                      |
| Finance expenses  | 14    | 1,249,585                   | 1,019,535                   |
| Net movement in the provision for impairment of receivables   | 9, 13 | 82,856                      | 14,747                      |
| Impairment loss on finance leases                             |       | –                           | 61,364                      |
| Non-cash settlement of technological connection revenue       |       | (31,329)                    | (70,029)                    |
| Net movement in the provision for impairment of inventories   |       | 17,101                      | 41,955                      |
| Net expense for the defined benefit plan                      |       | 144,698                     | 60,249                      |
| Net movements in provisions                                   |       | (41,070)                    | 34,031                      |
| <b>Operating cash flows before changes in working capital</b> |       | <b>4,090,689</b>            | <b>4,894,914</b>            |
| Increase/(decrease) in trade and other payables               |       | 1,814,742                   | (218,296)                   |
| Increase in other current liabilities                         |       | 877,130                     | 1,826,276                   |
| Decrease in other non-current liabilities                     |       | (31,896)                    | (1,770,085)                 |
| Increase in accounts receivable                               |       | (602,082)                   | (892,339)                   |
| Increase in inventories                                       |       | (91,685)                    | (57,327)                    |
| Decrease in other non-current and current assets              |       | 194,600                     | 1,211,060                   |
| <b>Cash generated from operations</b>                         |       | <b>6,251,498</b>            | <b>4,994,203</b>            |
| Interest paid   |       | (1,160,042)                 | (1,047,008)                 |
| Income tax paid   |       | (468,898)                   | (165,427)                   |
| Pension benefits paid   |       | (24,423)                    | (18,676)                    |
| Interest received   |       | 272,443                     | 95,830                      |
| <b>Net cash generated from operating activities</b>           |       | <b>4,870,578</b>            | <b>3,858,922</b>            |
| <b>Cash flow from investment activities</b>                   |       |                             |                             |
| Purchases of property, plant and equipment                    |       | (6,362,004)                 | (3,789,395)                 |
| Purchases of intangible assets                                |       | (19,544)                    | (10,848)                    |
| Proceeds from disposal of property, plant and equipment       |       | 1,885                       | 6,178                       |
| Cash placed to short-term deposits                            |       | (2,216,622)                 | –                           |
| <b>Net cash used in investment activities</b>                 |       | <b>(8,596,285)</b>          | <b>(3,794,065)</b>          |



OJSC Lenenergo  
Interim condensed consolidated statement of cash flows (continued)  
for the six months ended 30 June 2013  
(in thousands of Russian Rubles)

|   | For six months ended        |                             |
|---|-----------------------------|-----------------------------|
|   | 30 June 2013<br>(unaudited) | 30 June 2012<br>(unaudited) |
| <b>Cash flow from financing activities</b>                  |                             |                             |
| Long-term borrowings received                               | 5,642,548                   | 6,799,783                   |
| Issue and transaction costs on bonds and loans              | (8,278)                     | (55,240)                    |
| Proceeds from share issue                                   | –                           | 2,000,185                   |
| Repayment of long-term borrowings before maturity           | (928,560)                   | (3,000,000)                 |
| Repayment of short-term borrowings                          | –                           | (6,000,000)                 |
| Repayment of finance lease liabilities                      | (25,228)                    | (382,206)                   |
| <b>Net cash provided by/(used in) financing activities</b>  | <b>4,680,482</b>            | <b>(637,478)</b>            |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>954,775</b>              | <b>(572,621)</b>            |
| Cash and cash equivalents at the beginning of the period    | 3,513,622                   | 7,108,538                   |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>4,468,397</b>            | <b>6,535,917</b>            |

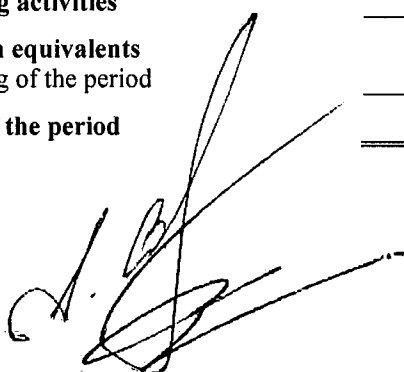
General Director

A.V.Sorochinsky

Chief Accountant

G.V.Kuznetsova

28 August 2013



# OJSC Lenenergo

## Notes to the unaudited interim condensed consolidated financial statements

for the six months ended 30 June 2013

(in thousands of Russian Rubles)

### 1. Corporate information

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

As at 30 June 2013 and 31 December 2012 the Group comprised the Company and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%), CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%) and OJSC Energoservisnaya Compania Lenenergo (100%) (hereinafter collectively referred to as “the Group”).

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 were authorised for issue by General Director and Chief Accountant on 28 August 2013.

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

The Group is under control of OJSC Russian Grids, which owned 49.36% of the Company’s share capital, including 53.41% of voting ordinary shares as at 30 June 2013 and 31 December 2012. OJSC Russian Grids is ultimately controlled by the government of 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 30 June 2013 the Group’s current liabilities exceeded its current assets by 20,614,408 (31 December 2012: 19,331,648). The Group’s net profit for the six months ended 30 June 2013 was 582,007 (2012: 1,217,469), including 578,566 (2012: 1,216,093) attributed to equity holders of the parent. For the six months ended 30 June 2013 the Group generated net cash flow from operating activities of 4,870,578 (2012: 3,858,922).

As at 30 June 2013 liquidity ratios improved in comparison with 31 December 2012. Current ratio, being current assets divided by current liabilities, increased from 0.37 as at 31 December 2012 to 0.41 as at 30 June 2013; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, increased from 0.18 as at 31 December 2012 to 0.19 as at 30 June 2013.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 1. Corporate information (continued)

##### *Financial position and liquidity (continued)*

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

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

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

#### 2. Basis of presentation of the financial statements and accounting policies

##### 2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2012.

##### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations as of 1 January 2013.

Notes to the unaudited interim condensed consolidated financial statements (continued)

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

**2.2 New standards, interpretations and amendments adopted by the Group (continued)**

The Group applies, for the first time, IAS 19 (Revised 2011) *Employee Benefits* that requires restatement of previous financial statements. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 13 *Fair Value Measurement* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment are described below:

*IAS 19 Employee Benefits (Revised 2011) (IAS 19R)*

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In case of the Group, the transition to IAS 19R had an impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets, actuarial gains and losses and unvested past service costs.

IAS 19R has been applied retrospectively from 1 January 2013.

As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs are recognised at the earlier of when the amendment occurs and when the Group recognises related restructuring or termination costs. Until 2013, the Group's unvested past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognised immediately if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

The Group previously recognised only net cumulative unrecognised actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets. As a consequence, the Group's statement of financial position did not reflect a significant part of unrecognised net actuarial gains and losses. Upon transition to IAS 19R, the Group recognises actuarial gains and losses in the period in which they occur in total in other comprehensive income.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

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

##### 2.2 New standards, interpretations and amendments adopted by the Group (continued)

|  | 31 December<br>2012 | 31 December<br>2011 |
|--|---------------------|---------------------|
| Post-employment benefits liability as previously reported            | 489,460             | 410,041             |
| Recognition of unrecognized past service cost                        | 61,738              | 68,046              |
| Recognition of unrecognized actuarial gains and losses               | 6,169               | (28,237)            |
| Post-employment benefits liability as restated                       | 557,367             | 449,850             |
| <br>   |                     |                     |
| Deferred tax liability as previously reported                        | 2,370,096           | 3,058,696           |
| Tax effect on recognition of unrecognized past service cost          | (12,348)            | (13,609)            |
| Tax effect on recognition of unrecognized actuarial gains and losses | (1,234)             | 5,647               |
| Deferred tax liability as restated                                   | 2,356,514           | 3,050,734           |
| <br>   |                     |                     |
| Retained earnings as previously reported                             | 9,340,314           | 9,115,941           |
| Recognition of unrecognized past service cost net of tax             | (49,390)            | (54,437)            |
| Recognition of unrecognized actuarial gains and losses net of tax    | (4,935)             | 22,590              |
| Retained earnings as restated  | 9,285,989           | 9,084,094           |

#### IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

#### IAS 1 *Clarification of the requirement for comparative information (Amendment)*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

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

##### 2.2 New standards, interpretations and amendments adopted by the Group (continued)

###### IAS 32 *Tax effects of distributions to holders of equity instruments* (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements of the Group, as there is no tax consequences attached to cash or non-cash distribution.

###### IAS 34 *Interim financial reporting and segment information for total assets and liabilities* (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. As the Group operates in a single segment, this amendment did not affect presentation of Group's consolidated interim condensed financial statements.

###### IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment did not have an impact on the Group's consolidated interim condensed financial statements.

###### IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### **2. Basis of presentation of the financial statements and accounting policies (continued)**

##### **2.2 New standards, interpretations and amendments adopted by the Group (continued)**

###### *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard had no impact on the financial position of the Group, as the Group does not own any investment in associates or joint ventures.

###### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group did not make such disclosures.

###### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 did not have any impact on the financial position or performance of the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), however not affecting the interim condensed consolidated financial statements of the Group, as the Group does not hold any financial instruments measured at fair value.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **3. 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 are presented in the interim condensed consolidated income statement and the interim condensed consolidated statement of financial position.

An analysis of revenue by type is disclosed in Note 12.

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

OJSC Lenenergo

Notes to the unaudited interim condensed consolidated financial statements (continued)

4. Impairment and revaluation of non-current assets

*Property, plant and equipment*

Based on valuation performed by independent appraiser, management believes that as of 30 June 2013 no material changes in the fair value of property, plant and equipment have occurred.

*Intangible assets*

As at 30 June 2013 the Group performed an impairment analysis of its intangible assets. As a result of this analysis for the six months ended 30 June 2013 the Group did not recognize any impairment of intangible assets.

5. Property, plant and equipment

|                                 | Production premises | Power lines  | Equipment, power equipment, sub-stations | Other       | Assets under construction | Total        |
|---------------------------------|---------------------|--------------|--|-------------|---------------------------|--------------|
| <b>Cost</b>                     |                     |              |  |             |                           |              |
| As at 31 December 2012          | 27,934,928          | 38,353,656   | 34,942,907                               | 7,121,216   | 14,955,873                | 123,308,580  |
| Additions                       | –                   | –            | –  | –           | 5,462,658                 | 5,462,658    |
| Disposals                       | (2,469)             | (6,263)      | (10,690)                                 | (83,491)    | (170,665)                 | (273,578)    |
| Transfer                        | 1,425,079           | 731,971      | 1,328,242                                | 469,828     | (3,955,120)               | –            |
| As at 30 June 2013 (unaudited)  | 29,357,538          | 39,079,364   | 36,260,459                               | 7,507,553   | 16,292,746                | 128,497,660  |
| <b>Accumulated depreciation</b> |                     |              |  |             |                           |              |
| As at 31 December 2012          | (3,039,144)         | (22,958,247) | (6,309,345)                              | (2,694,833) | (1,892,139)               | (36,893,708) |
| Charge for the year             | (444,331)           | (612,895)    | (596,708)                                | (266,937)   | –                         | (1,920,871)  |
| Disposals                       | 314                 | 2,044        | 5,485                                    | 52,892      | –                         | 60,735       |
| As at 30 June 2013 (unaudited)  | (3,483,161)         | (23,569,098) | (6,900,568)                              | (2,908,878) | (1,892,139)               | (38,753,844) |
| <b>Net book value</b>           |                     |              |  |             |                           |              |
| As at 31 December 2012          | 24,895,784          | 15,395,409   | 28,633,562                               | 4,426,383   | 13,063,734                | 86,414,872   |
| As at 30 June 2013 (unaudited)  | 25,874,377          | 15,510,266   | 29,359,891                               | 4,598,675   | 14,400,607                | 89,743,816   |



## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

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

##### Property, plant and equipment under finance lease

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

|                          | <b>30 June 2013<br/>(unaudited)</b> | <b>31 December<br/>2012</b> |
|--------------------------|-------------------------------------|-----------------------------|
| Cost                     | 218,064                             | 414,353                     |
| Accumulated depreciation | (36,747)                            | (59,287)                    |
| <b>Net book value</b>    | <b>181,317</b>                      | <b>355,066</b>              |

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

For the six months ended 30 June 2012 acquisitions under finance lease of 210,133 were excluded from the interim condensed consolidated statement of cash flows, so investing activities in the interim condensed consolidated cash flow statement represent actual cash transactions. For the six months ended 30 June 2013 there were no acquisitions under finance lease.

#### 6. Advances for construction of property, plant and equipment

Advances of 422,428 paid to construction contractors (31 December 2012: 508,158) are stated net of impairment provision of 149,157 (31 December 2012: 199,650). Movements in the provision for impairment of advances to construction contractors are disclosed in Note 9.

#### 7. Accounts receivable

|   | <b>30 June 2013<br/>(unaudited)</b> | <b>31 December<br/>2012</b> |
|---|-------------------------------------|-----------------------------|
| Trade receivables net of impairment provision of 544,528<br>(2012: 479,172)       | 1,949,735                           | 1,727,469                   |
| Other accounts receivable net of impairment provision of<br>75,782 (2012: 28,361) | 440,768                             | 349,650                     |
| <b>Total</b>  | <b>2,390,503</b>                    | <b>2,077,119</b>            |

Management determined the provision for impairment of receivables based on specific customer solvency, industry-specific payment trends, subsequent receipts and settlements and analysis of expected future cash flows. The Group analyses the ability of debtors to 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 9). Management believes that the Group will be able to realize the net receivable amount through direct collections and non-cash settlements.

OJSC Lenenergo

Notes to the unaudited interim condensed consolidated financial statements (continued)

8. Other current assets

|   | 30 June 2013<br>(unaudited) | 31 December<br>2012 |
|---|-----------------------------|---------------------|
| VAT receivable net of impairment provision of 123,397<br>(2012: 110,533)                            | 2,712,340                   | 2,941,628           |
| Prepayments and advances given to suppliers net of<br>impairment provision of 40,487 (2012: 62,723) | 147,387                     | 146,400             |
| Other taxes receivable  | 7,978                       | 7,766               |
| Other current assets  | 4,259                       | 4,004               |
| <b>Total</b>  | <b>2,871,964</b>            | <b>3,099,798</b>    |

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 9.

9. Impairment provision for accounts receivable, advances given and other current assets

Movements in the provision for impairment of accounts receivable, advances given and other current assets were as follows:

|   | Trade<br>receivables | VAT<br>receivable | Advances<br>to suppliers | Advances<br>for<br>construc-<br>tion | Other<br>receivables | Total          |
|---|----------------------|-------------------|--------------------------|--------------------------------------|----------------------|----------------|
| <b>As at 31 December 2011</b>             | <b>386,263</b>       | <b>102,693</b>    | <b>75,475</b>            | <b>202,582</b>                       | <b>25,138</b>        | <b>792,151</b> |
| Charge                                    | 77,793               | 6,919             | 4,481                    | 25,243                               | 2,408                | 116,844        |
| Released                                  | (44,682)             | -                 | (10,318)                 | (41,289)                             | (5,808)              | (102,097)      |
| Utilized                                  | (16,634)             | -                 | (9,654)                  | (38,539)                             | (9,180)              | (74,007)       |
| <b>As at 30 June 2012<br/>(unaudited)</b> | <b>402,740</b>       | <b>109,612</b>    | <b>59,984</b>            | <b>147,997</b>                       | <b>12,558</b>        | <b>732,891</b> |
| <b>As at 31 December 2012</b>             | <b>479,172</b>       | <b>110,533</b>    | <b>62,723</b>            | <b>199,650</b>                       | <b>28,361</b>        | <b>880,439</b> |
| Charge                                    | 160,123              | 12,864            | 4,199                    | 1,254                                | 78,756               | 257,196        |
| Released                                  | (90,416)             | -                 | (25,704)                 | (51,747)                             | (6,473)              | (174,340)      |
| Utilized                                  | (4,351)              | -                 | (731)                    | -                                    | (24,862)             | (29,944)       |
| <b>As at 30 June 2013<br/>(unaudited)</b> | <b>544,528</b>       | <b>123,397</b>    | <b>40,487</b>            | <b>149,157</b>                       | <b>75,782</b>        | <b>933,351</b> |

10. Equity

|                   | Number of shares issued<br>and fully paid |                      | Share capital               |                     |
|-------------------|---|----------------------|-----------------------------|---------------------|
|                   | 30 June 2013<br>(unaudited)               | 31 December<br>2012  | 30 June 2013<br>(unaudited) | 31 December<br>2012 |
| Ordinary shares   | 1,135,061,313                             | 1,135,061,313        | 5,075,155                   | 5,075,155           |
| Preference shares | 93,264,311                                | 93,264,311           | 625,603                     | 625,603             |
| <b>Total</b>      | <b>1,228,325,624</b>                      | <b>1,228,325,624</b> | <b>5,700,758</b>            | <b>5,700,758</b>    |

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 10. Equity (continued)

##### Share capital

The par value of both ordinary and preference shares is 1 Ruble per share. Ordinary shares carry voting rights with no guarantee of dividends.

##### Preference shares

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

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

Preference shares carry no rights of redemption or conversion.

Preference shares carry dividends amounting to the higher of 10% of the net income after taxation of the Group as reported in the Russian statutory accounts divided by the number of preference shares and the dividends paid on one ordinary share. Dividends on the preference shares are non-cumulative. In case of liquidation, the assets remaining after settlement with creditors, payment of preference dividends and redemption of the par value of preference shares are distributed among preference and ordinary shareholders proportionally to the number of shares owned.

Accordingly, the Group's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 16).

##### Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by the statutory accounting rules. Statutory retained earnings as at 30 June 2013 comprized 11,791,285 (31 December 2012: 12,098,786). Statutory net loss of the Company for the six months ended 30 June 2013 amounted to 1,134,967 (30 June 2012: net profit of 1,208,715).

##### Dividend declared

For the six months ended 30 June 2013 dividends for the year ended 31 December 2012 were declared in the amount of 1.32 Rubles per preference share and 0.16 per ordinary share. The total amount of dividends accrued as of 30 June 2013 for the year ended 31 December 2012 was 308,583 (as of 30 June 2012 for the year ended 31 December 2011: 141,742). By 30 June 2013 these dividends remained unpaid.

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Notes to the unaudited interim condensed consolidated financial statements (continued)

**11. Borrowings**

|   | <b>Currency</b> | <b>Effective interest rate</b> | <b>Maturity date</b> | <b>30 June 2013 (unaudited)</b> | <b>31 December 2012</b> |
|---|-----------------|--------------------------------|----------------------|---------------------------------|-------------------------|
| Bank loans  | Rubles          | 7.01%-10%                      | 2013-2017            | <b>26,439,872</b>               | 24,696,022              |
| Bonds issued by the Group series BO-1               | Rubles          | 8.53%                          | 2016                 | <b>3,042,404</b>                | –                       |
| series 04   | Rubles          | 8.75%                          | 2017                 | <b>3,041,615</b>                | 3,041,601               |
|   |                 | 13.96%-                        |                      |                                 |                         |
| Finance lease liabilities                           | Rubles          | 32.32%                         | 2013-2015            | <b>31,580</b>                   | 53,377                  |
| <b>Total borrowings</b>                             |                 |                                |                      | <b>32,555,471</b>               | 27,791,000              |
| Less:   |                 |                                |                      |                                 |                         |
| -current portion of bank loans                      | Rubles          | 7.01%-9.09%                    | 2013-2014            | <b>(10,321,295)</b>             | (7,071,080)             |
| - current portion of bonds series BO-1              | Rubles          | 8.53%                          | 2013                 | <b>(50,182)</b>                 | –                       |
| series 04   | Rubles          | 8.75%                          | 2013                 | <b>(48,201)</b>                 | (48,900)                |
| -current portion of finance lease liabilities       | Rubles          | 12.82%-32.32%                  | 2013-2014            | <b>(17,845)</b>                 | (33,321)                |
| <b>Current portion of long-term borrowings</b>      |                 |                                |                      | <b>(10,437,523)</b>             | (7,153,301)             |
| <b>Long-term borrowings, net of current portion</b> |                 |                                |                      | <b>22,117,948</b>               | 20,637,699              |

**Bonds**

During six month ended 30 June 2013 the Group fully met its coupon obligations under the 2nd coupon of the bonds series 04 of 127,140.

In April 2013 the Group placed the 1st issue of 3,000,000 certified non-convertible coupon bonds series BO-1 with a par value of 1,000 rubles with 6 interest-bearing coupons. Payments under each coupon are due on the 182nd day. The interest rate is set at 8.25% p.a. The bonds mature in April 2016, in 1092 days from the date of placement.

**Loans**

In 2013 the Group received several tranches for the total amount of 680,356 under non-renewable credit line agreement with State Corporation VneshEconombank (hereinafter “VneshEconombank”) entered into in 2012.

The Group received 1,962,192 under credit line agreements with OJSC Sberbank entered into in 2011 and 2012 bearing interest of 7.51% - 9.09% and maturing in May 2014 – September 2016. The Group repaid 867,000 before maturity under these agreements.

In May 2013 the Group repaid before maturity 61,560 under agreement concluded with OJSC Bank VTB Severo-Zapad in 2010.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 11. Borrowings (continued)

##### *Restriction and covenants*

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

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

As of 30 June 2013 the Group complied with all restrictions and covenants except for EBITDA to Interest paid on borrowings ratio and Net debt to EBITDA ratio. Thus, as at 30 June 2013 the respective loans were included in the short-term portion of borrowings in the interim condensed statement of financial position as the bank has the right to claim any outstanding loan and interest before their respective original maturity dates at any time. No waiver has been received from the bank as at 30 June 2013.

##### **Finance lease commitments**

As at 30 June 2013 the Group didn't enter into new lease agreements. Future minimum lease payments under finance lease are as follows:

|  | Within one<br>year | During<br>2-5 years | Over 5<br>years | Total         |
|--|--------------------|---------------------|-----------------|---------------|
| <b>As at 30 June 2013 (unaudited)</b>          |                    |                     |                 |               |
| Future minimum lease payments                  | 19,167             | 14,391              | –               | 33,558        |
| Less: future interest expenses                 | (1,322)            | (656)               | –               | (1,978)       |
| Present value of future minimum lease payments | <b>17,845</b>      | <b>13,735</b>       | –               | <b>31,580</b> |
| <b>As at 31 December 2012</b>                  |                    |                     |                 |               |
| Future minimum lease payments                  | 38,727             | 23,005              | –               | 61,732        |
| Less: future interest expenses                 | (5,406)            | (2,949)             | –               | (8,355)       |
| Present value of future minimum lease          | <b>33,321</b>      | <b>20,056</b>       | –               | <b>53,377</b> |

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 11. Borrowings (continued)

##### Finance lease commitments (continued)

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

As at 30 June 2013 the Group's primary lessors were OJSC VTB-Leasing, LLC Sevzapleasing. For the six months ended 30 June 2013 effective interest rate on lease liabilities ranged from 16.92% to 29.72% p.a.

#### 12. Revenue

|   | <b>For the six months ended</b> |                     |
|---|---------------------------------|---------------------|
|   | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|   | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| Network transmission of electricity   | 14,036,652                      | 14,033,029          |
| Technological losses at the normal (expected) level                         | (2,679,639)                     | (2,549,589)         |
| <b>Network transmission of electricity, net of normal (expected) losses</b> | <b>11,357,013</b>               | <b>11,483,440</b>   |
| Technical connection to electricity grids                                   | 1,328,275                       | 3,083,018           |
| Other revenue   | 1,120,928                       | 797,711             |
| <b>Total</b>  | <b>13,806,216</b>               | <b>15,364,169</b>   |

For the six months ended 30 June 2013 electricity transmission revenue before technological losses at the normal (expected) level of 11,620,125 (30 June 2012: 12,371,241) was generated from two customers that individually accounted for greater than 10% (30 June 2012: three customers).

Part of technological connection revenue for the six months ended 30 June 2013 of 31,135 (30 June 2012: 70,029) were settled by way of contribution of property, plant and equipment from the customers.

#### 13. Operating expenses

|   | <b>For the six months ended</b> |                     |
|---|---------------------------------|---------------------|
|   | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|   | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| Transmission fees                                       | 5,339,918                       | 6,717,791           |
| Salaries and salary taxes                               | 2,300,046                       | 1,960,632           |
| Depreciation  | 1,920,871                       | 2,063,221           |
| Repair and maintenance                                  | 476,191                         | 385,274             |
| Taxes other than income tax                             | 296,760                         | 99,694              |
| Rent  | 232,349                         | 210,545             |
| Agent services  | 217,908                         | 205,172             |
| Telecommunication and information services              | 146,550                         | 174,629             |
| Raw materials and supply                                | 140,475                         | 131,434             |
| Impairment and write-off of receivables                 | 82,856                          | 14,747              |
| Social expenses   | 73,657                          | 84,058              |
| Costs of internal security                              | 69,748                          | 63,724              |
| Consulting, legal and audit services                    | 63,277                          | 61,784              |
| Utilities   | 62,781                          | 58,172              |
| Amortization  | 59,897                          | 44,047              |
| Impairment of inventories                               | 17,101                          | 41,955              |
| Impairment loss on initial recognition of finance lease | -                               | 61,364              |
| Electricity metering services                           | -                               | 50,844              |
| Other operating expenses                                | 579,124                         | 385,127             |
| <b>Total</b>  | <b>12,079,509</b>               | <b>12,814,214</b>   |

OJSC Lenenergo

Notes to the unaudited interim condensed consolidated financial statements (continued)

14. Finance expenses

|                                    | <b>For the six months ended</b> |                     |
|------------------------------------|---------------------------------|---------------------|
|                                    | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|                                    | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| Interest expense on loans          | 1,062,766                       | 809,473             |
| Interest expense on bonds          | 177,834                         | 139,586             |
| Interest expense on finance leases | 3,431                           | 65,356              |
| Other finance expenses             | 5,554                           | 5,120               |
| <b>Total</b>                       | <b>1,249,585</b>                | <b>1,019,535</b>    |

15. Income tax

|   | <b>For the six months ended</b> |                     |
|---|---------------------------------|---------------------|
|   | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|   | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| <b>Current income tax:</b>  |                                 |                     |
| Current income tax charge   | 133,799                         | 24,667              |
| Release of tax provisions   | (80,609)                        | -                   |
| Adjustments in respect of current income tax of previous year                             | -                               | (8,368)             |
| <b>Deferred income tax:</b>   |                                 |                     |
| Relating to origination and reversal of temporary differences                             | 114,368                         | 392,482             |
| <b>Income tax expense reported in the interim condensed consolidated income statement</b> | <b>167,558</b>                  | <b>408,781</b>      |

Reconciliation between tax expense and accounting profit multiplied by tax rate for the six months ended 30 June 2013 and 2012 is as follows:

|   | <b>For the six months ended</b> |                     |
|---|---------------------------------|---------------------|
|   | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|   | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| Accounting profit before tax  | 749,565                         | 1,626,250           |
| Theoretical tax expense at statutory income tax rate of 20%   | 149,913                         | 325,250             |
| Non-deductible expenses   | 98,254                          | 91,899              |
| Release of tax provisions   | (80,609)                        | -                   |
| Adjustments in respect of current income tax of previous year   | -                               | (8,368)             |
| <b>Income tax expense reported in the interim condensed consolidated income statement at the effective income tax rate of 22% (30 June 2012: 25%)</b> | <b>167,558</b>                  | <b>408,781</b>      |

16. Earnings per share

|  | <b>For the six months ended</b> |                     |
|--|---------------------------------|---------------------|
|  | <b>30 June 2013</b>             | <b>30 June 2012</b> |
|  | <b>(unaudited)</b>              | <b>(unaudited)</b>  |
| Weighted average number of outstanding ordinary shares (thousands)   | 1,135,061                       | 963,590             |
| Weighted average number of outstanding preference shares (thousands) | 93,264                          | 93,264              |
| Net profit attributable to equity holders:                           | 582,007                         | 1,216,093           |
| - attributable to holders of ordinary shares                         | 578,566                         | 1,108,777           |
| - attributable to holders of preference shares                       | 3,441                           | 107,316             |
| <b>Earnings per share (Rubles)</b>                                   | <b>0.47</b>                     | <b>1.15</b>         |

Notes to the unaudited interim condensed consolidated financial statements (continued)

**17. Commitments and contingencies**

**Operating environment**

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

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

**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 30 June 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

**Legal proceedings and disputes**

The Group is subject to a number of court proceedings and disputes arising in the normal course of its business. These proceedings primarily relate to late fulfillment of technological connection contractual obligations and disputes related to electricity transmission services. As at 30 June 2013 possible risks related to such cases amounted to 47,980.

**Operating leases**

Operating lease commitments mainly relate to contractual obligations under long-term lease agreements for office premises and land plots under Group's power lines and equipment. These non-cancellable leases have terms between 5 and 49 years and contain renewal option. Rent expenses for the six months ended 30 June 2013 of 232,349 (30 June 2012: 210,545) were recognized within interim condensed consolidated income statement (Note 13).



## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 17. Commitments and contingencies (continued)

##### Operating leases (continued)

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2013 and 31 December 2012 are as follows:

|   | <b>30 June 2013<br/>(unaudited)</b> | <b>31 December<br/>2012</b> |
|---|-------------------------------------|-----------------------------|
| Within one year                             | <b>385,127</b>                      | 413,930                     |
| After one year but not more than five years | <b>1,303,122</b>                    | 1,250,776                   |
| More than five years                        | <b>1,113,531</b>                    | 708,599                     |
| <b>Total</b>                                | <b>2,801,780</b>                    | 2,373,305                   |

##### Capital commitments

Future capital expenditures for which contracts have been signed amounted to 14,840,349 as at 30 June 2013 (31 December 2012: 14,785,852).

#### 18. Related party transactions

For the purposes of these interim condensed 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.

OJSC Lenenergo

Notes to the unaudited interim condensed consolidated financial statements (continued)

**18. Related party transactions (continued)**

The Group had balances outstanding as at 30 June 2013 and 31 December 2012 with the following related parties.

**Balances with OJSC Russian Grids and entities under OJSC Russian Grids control**

|  | <b>30 June 2013<br/>(unaudited)</b> | <b>31 December<br/>2012</b> |
|--|-------------------------------------|-----------------------------|
| <b>Advances given</b>                                  | <b>25,163</b>                       | 1,378                       |
| OJSC EnergoUchet                                       | 538                                 | 1,378                       |
| <br>   |                                     |                             |
| OJSC Federal Grid Company of Unified Energy System (A) | <b>24,625</b>                       |                             |
| <b>Other receivables</b>                               | <b>98</b>                           | 98                          |
| OJSC EnergoUchet                                       | 65                                  | 65                          |
| OJSC Russian Grids                                     | 33                                  | 33                          |
| <br>   |                                     |                             |
| <b>Accounts payable, including</b>                     |                                     |                             |
| <b>Trade accounts payable</b>                          | <b>2,863,733</b>                    | 3,613                       |
| <br>   |                                     |                             |
| OJSC Federal Grid Company of Unified Energy System (A) | <b>2,858,872</b>                    |                             |
| OJSC Russian Grids                                     | 4,813                               | 3,590                       |
| <br>   |                                     |                             |
| OJSC EnergoUchet                                       | 25                                  |                             |
| OJSC NW EMK  | 23                                  | 23                          |
| <b>Advances received</b>                               | <b>1</b>                            | 13                          |
| OJSC NW EMK  | 1                                   | 13                          |
| <b>Other accounts payable</b>                          | <b>33,148</b>                       | 588                         |
| <br>   |                                     |                             |
| OJSC Federal Grid Company of Unified Energy System (A) | <b>33,148</b>                       |                             |
| OJSC EnergoUchet                                       | -                                   | 588                         |

**Transactions with OJSC Russian Grids and entities under OJSC Russian Grids control**

|  | <b>For the six months ended</b>     |                                     |
|--|-------------------------------------|-------------------------------------|
|  | <b>30 June 2013<br/>(unaudited)</b> | <b>30 June 2012<br/>(unaudited)</b> |
| <b>Consulting, legal and audit services</b>            | <b>40,792</b>                       | 40,792                              |
| OJSC Russian Grids                                     | 40,792                              | 40,792                              |
| <br>   |                                     |                                     |
| <b>Transmission fee</b>                                | <b>534,688</b>                      | -                                   |
| OJSC Federal Grid Company of Unified Energy System (A) | 534,688                             | -                                   |

(A) On 14 June 2013 OJSC Russian Grids acquired 79.55% in OJSC Federal Grid Company of Unified Energy System. Transactions with OJSC Federal Grid Company of Unified Energy System from the acquisition date and balances as of 30 June 2013 are presented within related parties disclosures.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### 19. Related party transactions (continued)

##### Transactions with other related parties

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

The outstanding balances with NPF Electroenergetiki were as follows:

|                           | <b>30 June 2013</b><br><b>(unaudited)</b> | <b>31 December</b><br><b>2012</b> |
|---------------------------|---|-----------------------------------|
| Other accounts receivable | 137,958                                   | 131,736                           |

##### Compensation to key management personnel

Key management personnel comprise general director of the Company and his deputies, including finance director and chief accountant, as well as members of the Board of Directors. Total compensation to key management personnel, which is represented by short-term and termination employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement was as follows:

|                              | <b>For the six months ended</b>           |   |
|------------------------------|---|---|
|                              | <b>30 June 2013</b><br><b>(unaudited)</b> | <b>30 June 2012</b><br><b>(unaudited)</b> |
| Short-term employee benefits | 43,242                                    | 44,424                                    |
| Termination benefits         | 1,602                                     | 7,730                                     |
| <b>Total</b>                 | <b>44,844</b>                             | <b>52,154</b>                             |

#### 19. Financial risk management

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

##### Credit risk

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

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

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

##### Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities as at 30 June 2013 and 31 December 2012 based on contractual undiscounted payments:

| As at 30 June 2013 (unaudited)   | 1 year            | 2 years          | 3-5 years         | Over 5 years |
|----------------------------------|-------------------|------------------|-------------------|--------------|
| Bonds issued                     | 501,102           | 501,102          | 6,755,382         | –            |
| Interest-bearing loans           | 12,049,422        | 6,822,109        | 10,927,771        | –            |
| Trade and other accounts payable | 9,275,092         | 900              | 102,401           | –            |
| Finance lease obligations        | 19,167            | 5,087            | 9,304             | –            |
| Dividends payable                | 308,583           | –                | –                 | –            |
| <b>Total</b>                     | <b>22,153,366</b> | <b>7,329,198</b> | <b>17,794,858</b> | –            |

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

##### 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 these interim condensed consolidated financial statements:

|   | 30 June 2013 (unaudited) |              | 31 December 2012 |              |
|---|--------------------------|--------------|------------------|--------------|
|   | Carrying amount          | Fair value   | Carrying amount  | Fair value   |
| Cash and cash equivalents               | 4,468,397                | 4,468,397    | 3,513,622        | 3,513,622    |
| Short-term investment                   | 4,482,622                | 4,482,622    | 2,266,000        | 2,266,000    |
| Available-for-sale investments          | 100                      | 100          | 100              | 100          |
| Accounts receivable                     | 2,390,503                | 2,390,503    | 2,077,119        | 2,077,119    |
| Obligations under finance leases        | (31,580)                 | (31,580)     | (53,377)         | (53,377)     |
| Current portion of long-term borrowings | (10,419,678)             | (10,177,666) | (7,119,980)      | (7,067,802)  |
| Long-term fixed rate borrowings         | (22,104,213)             | (22,039,788) | (20,617,643)     | (20,000,542) |
| Trade and other payables                | (9,273,292)              | (9,273,292)  | (7,992,504)      | (7,992,504)  |

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

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

The fair value of available-for-sale investment was determined using cost method.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

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

##### Fair values (continued)

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

The fair value of borrowings is calculated by discounting the expected future cash flows at interest rates determined with regard to the Group's creditworthiness.

##### Fair value hierarchy

As at 30 June 2013 the Group held the following financial instruments measured at fair value:

|                                | 30 June 2013 | Level 1 | Level 2 | Level 3 |
|--------------------------------|--------------|---------|---------|---------|
| Available-for-sale investments | 100          | –       | –       | 100     |

For the six months ended 30 June 2013 there was no transfers among any levels of fair value measurements.

##### Capital risk management

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

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

No changes were made in the objectives, policies or processes during the six months ending 30 June 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio up to 85%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

|   | 30 June 2013<br>(unaudited) | 31 December<br>2012 |
|---|-----------------------------|---------------------|
| Interest-bearing loans and borrowings (Note 11)           | 32,555,471                  | 27,791,000          |
| Trade and other payables                                  | 9,273,292                   | 8,646,083           |
| Less cash and cash equivalents and short-term investments | (8,951,019)                 | (5,779,622)         |
| Net debt  | 32,877,744                  | 30,657,461          |
| Ordinary shares (Note 10)                                 | 5,075,155                   | 5,075,155           |
| Preference shares (Note 10)                               | 625,603                     | 625,603             |
| Total capital   | 5,700,758                   | 5,700,758           |
| <b>Capital and net debt</b>                               | <b>38,578,502</b>           | <b>36,358,219</b>   |
| Gearing ratio   | 85%                         | 84%                 |

As at 30 June 2013 the Group has been in compliance with share capital requirements established by the legislation of Russian Federation.

## OJSC Lenenergo

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### **20. Events after the reporting date**

In August 2013 the Group fully repaid dividends for 2012 of 308,583.

In July – August 2013 the Group received several tranches of 158,349 from OJSC Sberbank under the credit lines described in Note 11 and 1,238,617 under credit line agreement entered into in June 2013.

In August 2013 the Group repaid 1,000,000 under credit line agreement with OJSC Sberbank entered into in 2010.