OPEN JOINT STOCK COMPANY
LENENERGO

IAS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

Balance sheet as at 31 December 2001

(in millions of Russian Roubles ("RR") expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001)

	Notes	31 December 2001	31 December 2000
Assets			
Non-current assets			
Property, plant and equipment	7	39,986	44,004
Investments	8	525	550
Other non-current assets	9	150	263
Total non-current assets		**40,661**	**44,817**
Current assets			
Cash and cash equivalents	10	387	332
Accounts receivable and prepayments	11	3,515	4,541
Inventories	12	834	721
Other current assets		26	164
Total current assets		**4,762**	**5,758**
Total assets		**45,423**	**50,575**
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 766 million)		4,461	4,461
Preference shares (nominal value RR 131 million)		765	765
Retained earnings		34,946	31,856
Total shareholders' equity		**40,172**	**37,082**
Non-current liabilities			
Deferred profits tax liabilities	14	276	5,388
Non-current debt	15	757	50
Other non-current liabilities		14	225
Total non-current liabilities		**1,047**	**5,663**
Current liabilities			
Current debt and current portion of non-current debt	16	718	310
Accounts payable and accrued charges	17	2,574	6,498
Taxes payable	18	912	1,022
Total current liabilities		**4,204**	**7,830**
Total shareholders' equity and liabilities		**45,423**	**50,575**

General Director - Likhachev A.N.
First Deputy General Director - Androsov K.G.
27 May 2002

Statement of income for the year ended 31 December 2001

(in millions of Russian Roubles (“RR”) expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
Revenues			
Electricity		13,038	9,620
Heating		4,933	3,579
Other		379	447
Total revenues		**18,350**	**13,646**
Costs and other deductions			
Fuel expenses		(4,638)	(4,208)
Purchased power		(4,253)	(3,377)
Wages and payroll taxes		(1,974)	(1,776)
Depreciation	7	(4,515)	(4,462)
Repairs and maintenance		(872)	(760)
Taxes other than on income		(590)	(557)
Other materials		(364)	(433)
Transmission fees		(1,128)	(799)
Other expenses		(874)	(324)
Water costs		(684)	(455)
Rental fees		(66)	(80)
Social expenditures		(50)	(216)
Loss on disposal of non-current assets		(322)	(364)
Total costs and other deductions		**(20,330)**	**(17,811)**
Loss from operations Income/(loss) from operations Income/(loss) from operations		**(1,980)**	**(4,165)**
Monetary effects and financing items	19	511	585
Loss on ordinary activities before taxation		**(1,469)**	**(3,580)**
Profits tax credit	14	4,559	3,992
Net income		**3,090**	**412**

Earnings per share - basic and diluted - in Russian Roubles:	20		
• Ordinary		3.44	0.46
• Preference		3.44	0.46

General Director - Likhachev A.N.
First Deputy General Director - Androsov K.G.
27 May 2002

Statement of Cash Flows for the year ended 31 December 2001

(in millions of Russian Roubles ("RR") expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss on ordinary activities before taxation		**(1,469)**	**(3,580)**
Adjustments to reconcile loss on ordinary activities before taxation to net cash provided by operations:			
Depreciation	7	4,515	4,462
Gain on settlement of discounted receivables	19	(57)	(169)
Gain on discounting of payables	19	(415)	-
Interest expense	19	193	56
Loss on disposal of non-current assets		322	364
Adjustment for non-cash investing activities		(185)	201
Monetary effect on non-operating balances		55	30
Operating profit before working capital changes		**2,959**	**1,364**
Decrease in accounts receivable and prepayments		1,196	775
Decrease in accounts payable and accrued charges		(3,924)	(1,607)
Decrease/(increase) in other current assets		138	(133)
(Decrease)/increase in taxes payable other than profits tax		(398)	72
(Decrease)/increase in non-current liabilities		(212)	225
(Increase)/decrease in inventories		(113)	111
Profits tax paid		(301)	(7)
Net cash (used in)/ provided by operating activities		**(655)**	**800**
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(643)	(633)
Proceeds from sale of property, plant and equipment		10	46
Additions to other non-current assets		-	(55)
Net cash used in investing activities		**(633)**	**(642)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current debt		3,589	301
Proceeds from non-current debt		1,106	23
Reduction of debt		(3,092)	(182)

Interest paid		(197)	(56)
Net cash provided by financing activities		**1,406**	**86**
Effect of inflation on cash and cash equivalents		**(63)**	**(44)**
Increase in cash and cash equivalents		**55**	**200**
Cash and cash equivalents at the beginning of year	10	**332**	**132**
Cash and cash equivalents at the end of year	10	**387**	**332**

General Director - Likhachev A.N.
First Deputy General - Androsov K.G.
27 May 2002

Statement of Changes in Shareholders' Equity for the year ended 31 December 2001

(in millions of Russian Roubles ("RR") expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001)

	Ordinary share capital	Preference share capital	Retained earnings	Total shareholders' equity
At 1 January 2000	**4,461**	**765**	**31,444**	**36,670**
Net income	-	-	412	412
At 31 December 2000	**4,461**	**765**	**31,856**	**37,082**
Net income	-	-	3,090	3,090
At 31 December 2001	**4,461**	**765**	**34,946**	**40,172**

Notes to the Financial Statements as at 31 December 2001
(in millions of Russian Roubles ("RR") expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001)

Note 1: The Company and its operations

Open Joint-Stock Company Lenenergo (hereinafter the "Company") is a regional utility company providing electric power and heat generation and distribution services to the city of St Petersburg and the surrounding region (Leningrad oblast). Additionally, the Company purchases electricity from the Federal Wholesale Market for Electricity and Capacity ("FOREM") as determined by the operating needs of the Company. The Company's operations include approximately 5,300 megawatts ("MW") of installed generating capacity.

The Company was registered in the Russian Federation on 22 January 1993 in accordance with Presidential Decrees Number 922 dated 14 August 1992 and Number 923 dated 15 August 1992. In accordance with the privatisation of the Russian electric utility industry, the Company was organised as a joint-stock company and certain assets and liabilities formerly under the control of the Ministry of Energy of the Russian Federation were assumed at their net book value. The employees of the

Company originally acquired 19.0 percent ownership interest in the share capital of the newly formed joint stock company and 49.0 percent ownership interest was retained by the Russian Joint Stock Company Unified Energy System of Russia (“RAO UES”) which was also created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatisation. This 49.0 percent ownership by RAO UES represents 439,707,728 of the Company’s ordinary shares, giving RAO UES 57.4 percent of voting shares. The Company and its subsidiaries (see Note 5) are incorporated under the laws of the Russian Federation (the “state”).

At 31 December 2001, the number of employees of the Company was approximately 17,900 (31 December 2000: approximately 18,400).

The Company’s registered office is located at 1 Marsovo Pole, St Petersburg, 191186, Russia.

Relations with the state. At 31 December 2001, the state owned 52.7 percent of RAO UES, which represents 54.9 percent of ordinary shares.

The Company’s customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Company’s fuel and other suppliers.

The government of the Russian Federation directly affects the Company’s operations through regulation by the Federal Energy Commission (“FEC”), with respect to its wholesale energy purchases, and by the St Petersburg and Leningrad oblast Regional Energy Commissions (“REC’s”), with respect to its retail electricity and heat sales. The operations of all generating facilities are co-ordinated by the Central Dispatch Centre and Regional Dispatch Centres in order to meet system requirements in an efficient manner. These entities are controlled by RAO UES.

Tariffs which the Company may charge for sales of electricity and heat are governed by regulations both specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a “cost-plus” system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation (“RAR”), a basis of accounting which significantly differs from the IAS basis of accounting. In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases which are lower than required.

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on regional utility companies to provide connection with respect to the supply of electricity and the supply of heating to customers in the Russian Federation. As part of the state’s continuing efforts to collect taxes, Governmental Resolution Number 1 was issued on 5 January 1998 and amended on 17 July 1998. Except for certain governmental and other entities, this resolution allows electric power suppliers, including the Company, to discontinue the supply of electricity and heat to delinquent customers.

As described in Note 22, the government’s economic, social and other policies could have material effects on the operations of the Company.

Note 1: The Company and its operations (continued)

Industry restructuring. As per the Russian Federation Government Resolution № 526 “On reforming the Russian Federation electric utilities” dated 11 July 2001, initially an unregulated electricity trade sector for 5-15% of the power plants' output will be organized, after 2004 all the sales will become subject to free trade.

The industry structure will also change. As per the Actions Plan for the 1st Stage of the Russian Federation electric utilities reform, adopted by the Russian Federation Government Resolution № 1040-p dated 3 August 2001, the following is being done:

- Administrator of Trade System (ATS) - in November 2001 a Non-commercial partnership “Administrator of Trade System of the UES WEM” was established.

- Federal network company - OAO “FSK UES” shall be established based on all the network assets of RAO UES. Registration of OAO “FSK UES” is planned for the 2nd quarter of 2002.

- System operator- OAO “System operator- Central Dispatch Unit of the UES” (OAO “SO-CDU UES”) is planned to be established in the 2nd quarter of 2002.

RAO UES prepared its proposals regarding the principles for establishing wholesale generators and justification for the list of power plants which will get such a status. At present these proposals are being considered by the Russian Federation ministries and agencies, discussions are organized with the Heads and representatives of the regions the power plants of which are planned to be included into the wholesale generators. It is planned that in the 2nd quarter of 2002 the Government shall issue a Resolution regarding formation criteria, list and composition of the wholesale generators. RAO UES's proposals show Kirishi GRES (which is currently leased to the Company) forming part of one of the ten independent generation companies.

The Company has also prepared a draft restructuring plan for its own operations which involves the separation of its generation, distribution and supply activities. The final details have yet to be approved by the Board of Directors.

Note 2: Financial situation

As discussed above, the Company is affected by government policy through control of tariffs and other factors. In recent years the Regional Energy Commissions have not always permitted tariff increases in line with inflation and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs under an International Accounting Standards ("IAS") basis of accounting. As a result tariffs often do not allow for an adequate return or provide sufficient funds for the full replacement of property, plan and equipment.

The Company continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales and the cash content within these settlements. Despite this success there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling the Company to cut off non-payers, but this is only practical to a limited extent. In addition, market reforms have reduced the budgets for many governmental organisations, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 December 2001.

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- a currency that is not freely convertible outside of the country;
- onerous currency controls;
- a low level of liquidity in the public and private debt and equity markets;
- persistent high inflation.

Note 2: Financial situation (continued)

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government together with legal, regulatory, and political developments.

Management's continuing efforts to improve the Company's financial position concentrate primarily on the following areas:

- collection of old receivables, including such measures as court action, seizure of the debtors' assets, restriction of energy and/or heat supply, etc.;
- restructuring and refinancing liability to suppliers, mainly to gas companies. In April 2000, both receivables from local government organisations and payables to gas suppliers were restructured up to the end of 2003 (see Note 9). Further, an interest-

free long-term loan of RR 1,608 million received from a related party in the end of 2001 (see note 6) enabled the Company to fully settle its current liability to the major gas suppliers in the same amount; and

- obtaining additional tariff increases - the tariffs, which in 2001 increased by approximately 57% on average compared with 2000, have subsequently to the year end been further increased by approximately 14% on average.

Management is confident that its continuing efforts will result in further improvements in the Company's profitability and liquidity.

Note 3: Basis of presentation

These financial statements have been prepared in accordance with, and comply with, International Accounting Standards ("IAS") issued by the International Accounting Standards Committee.

The Company maintains its books of accounts and prepares its statutory financial statements in accordance with RAR. These financial statements are based on the statutory records, which are maintained under the historical cost convention method, with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS.

The preparation of financial statements in conformity with IAS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made with respect to the recoverable value of property, plant and equipment, deferred taxes and fair values of receivables, payables and available-for-sale investments. Actual results could differ from these estimates.

Inflation accounting. The adjustments and reclassifications made to the statutory records for the purposes of IAS presentation include the restatement for changes in the general purchasing power of the Russian Rouble in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics (Goscomstat), and from indices obtained from other published sources for years prior to 1992. The index used to restate the balance sheet, based on 1988 prices (1988 = 100), as at 31 December 2001, and the respective conversion factors are:

Note 3: Basis of presentation (continued)

Date	Index	Conversion Factor
31 December 1997	659,403	3.6
31 December 1998	1,216,400	2.0
31 December 1999	1,661,481	1.4
31 December 2000	1,995,937	1.2
31 December 2001	2,371,572	1.0

The significant guidelines followed in restating these financial statements are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31 December 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2001;
- as described in Note 4, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 4, management assesses the recoverability of property, plant and equipment. The appraisal values have been restated by applying relevant conversion factors together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2001) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of income and of cash flows are restated by applying appropriate conversion factors;
- the effect of inflation on the Company's net monetary position is included in the statement of income as a net monetary gain or loss.

The statement of income includes a monetary gain of RR 225 million for the year ended 31 December 2001 (2000: RR 473 million) because on average the Company had net monetary liabilities during both years. Since 31 December 2001, inflation has continued. As of 28 February 2002 the CPI was 2,473,550 (1988=100), representing inflation of 4.3 percent since 31 December 2001.

Note 4: Summary of significant accounting policies

Principles of consolidation. These financial statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company (see Note 5). Control is deemed to exist when the Company controls greater than 50 percent of voting rights.

All material intra-group balances and transactions have been eliminated.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including the discounted value of estimated future cash flows. In assessing the fair value management makes assumptions that are based on market conditions existing at each balance sheet date.

Note 4: Summary of significant accounting policies (continued)

All purchases and sales of investments are recognised on the settlement date, which is the date that an asset is delivered to or by an enterprise. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in the statement of income in the period in which they arise.

Foreign currency. Monetary assets and liabilities which are held by the Company and denominated in foreign currencies at the balance sheet date are translated into Russian Roubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") at 31 December 2001 was RR 30.14:US$1 (31 December 2000: RR 28.16:US$1). Exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

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

Property, plant and equipment. Property, plant and equipment as at 31 December 2001 is stated at depreciated replacement cost, based upon values determined by independent valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation by applying relevant conversion factors from the appropriate date. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of income. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

The amounts determined by the independent valuation represent an estimate of depreciated replacement cost. This independent valuation was performed in order to determine a basis for cost because the historical accounting records for property, plant and equipment were not readily available. Therefore, this independent valuation is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment. The change in carrying value arising from this valuation was recorded directly to retained earnings.

Additions are recorded at cost. Major renewals and improvements are capitalised and the assets replaced are retired. Costs of borrowing are not capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

Under Russian law, land on which the Company carries out its activities is the property of the state and, therefore, is not included in the balance sheet.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

Note 4: Summary of significant accounting policies (continued)

Type of facility Years

Electricity and heat generation	20 to 50
Electricity distribution	25
Heating networks	20
Other	10

Social assets are excluded from the financial statements as they are not expected to result in future economic benefits to the Company. However, costs for social responsibilities are expensed as incurred.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks. Cash equivalents comprise short-term investments that may be readily converted into cash. Cash equivalents are not subject to the risk of significant changes in value and have an original maturity of three months or less.

The statement of cash flows has been prepared in accordance with IAS 7 "Cash Flow Statements" and has been restated for the effects of inflation, in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies." The Company relies to a certain extent on non-cash transactions. Investing activities and financing activities, as disclosed in the statement of cash flows, represent actual cash transactions. The total of operating activities also represents actual cash flow transactions from operations. However, individual items within this part of the statement of cash flows are stated inclusive of both cash and non-cash transactions. Management believes that the benefits of providing individual cash items within operating activities are outweighed by the cost of preparation.

Mutual settlements and non-cash settlements. A minor portion of sales and purchases are settled by mutual settlements and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements include “veksels” or “bills of exchange” which are negotiable debt obligations. The receivables and payables recorded in this balance sheet, that are expected to be settled by mutual settlements or non-cash settlements, reflect management's estimate of the fair value to be received or given up in non-cash settlements.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. Trade and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Value added tax on purchases and sales. Value added tax of 20 percent is applied to the majority of purchases and sales. Value added tax is reclaimable against current value added tax obligations upon payment and receipt of goods or services rendered. These obligations are recorded net of the reclaimed value added tax on purchases. Value added tax on purchases for which either payment has not been made or goods have not been received is recorded as an asset in the balance sheet.

Inventories. Inventories are valued at the lower of net realisable value and weighted average cost, restated to the equivalent purchasing power of the Russian Rouble at the balance sheet date. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

Note 4: Summary of significant accounting policies (continued)

Deferred profits taxes. Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method for financial reporting and accounting for deferred profits taxes. Deferred profits taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added taxes which are reclaimable from tax authorities upon the later of receipt of goods or services and settlement of the payable.

If accounts payable are restructured and the fair value of the restructured payable differs by more than ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Company at the date of the restructuring. The amount of the discount is credited to the statement of income (monetary effects and financing items) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

Debt. Debt is recognised initially at the fair value of the proceeds received, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the Company when the debt was incurred. In subsequent periods, debt is stated at amortised cost; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of income as an interest expense over the period of the debt obligation.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity of the Company's subsidiaries. There was no material minority interest as at 31 December 2001 or 2000.

Pension and post-employment benefits. The Company's mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the outflow is probable and reliable estimates exist.

Segment information. The Company operates predominantly in a single geographic area and industry; the generation, distribution and sale of electric power and heat in the City of St. Petersburg and the surrounding Leningrad oblast. It is not feasible to identify distinguishable business segments for electric power and heat production.

Revenue recognition. Revenue is recognised on the delivery of electricity and heat, and on the despatch of non-utility goods and services. Revenue amounts are presented exclusive of value added taxes.

Revenue is based on the application of authorised tariffs for electricity and heat sales as approved by the REC.

Earnings per share. Preference shares are considered to be participating shares as their dividend may not be lower than that given to ordinary shares. Earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, respectively, outstanding during the reporting year. Losses are not allocated to preference shares in this calculation.

Note 4: Summary of significant accounting policies (continued)

Seasonality. Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Company.

Note 5: Principal subsidiaries

The following subsidiary enterprises have been consolidated into the Company's financial statements. All subsidiaries are incorporated and operate in the Russian Federation.

Name	Activity	Ownership %
ZAO Petroelectrosbyt	Collection of cash payments from residential customers on behalf of the Company	75%
OAO Petroenergobank	Banking services	89%
ZAO Lenenergospetsremont	Provision of repairs services, mainly to the Company	100%

The voting percentage held by the Company in the above subsidiaries is the same as the ownership percentage. There were no changes in the Company's interest in the subsidiaries during the years ended 31 December 2001 and 2000. Assets, liabilities and transactions of subsidiaries are insignificant for the Company's financial position or results.

Note 6: Related Parties

RAO UES. RAO UES owns 49% of shares of the Company giving it 57.4% of voting rights and effective control over the Company's operations. RAO UES charges the Company a subscription fee at the tariffs approved by the FEC for the use of the electricity grid and a rental fee for the lease of Kirishi GRES.

Centre for Assistance to Reforms of Energy Sector (CARES). In December 2001 CARES, a non-commercial partnership controlled by RAO UES, provided an interest-free loan to the Company that was used in full for repayment of the Company's liability to gas suppliers. The gain of RR 415 million recorded upon discounting the loan to arrive at its amortised cost is included in monetary effects and financing items.

North-West Power Station (NWS). The Company owns 13.8% of the share capital of NWS, which is also controlled by RAO UES. In 2001 the Company made purchases of electricity from NWS through FOREM at the tariffs approved by the FEC.

Fortum Power and Heat Oy (Fortum). Fortum owns 4% of the Company's share capital and has a seat on the Company's Board of directors. All the Company's export sales in 2000 and 2001 were made to Fortum. See Note 22 for more details.

Leningrad Metal Plant (LMZ). The Company owns 10.35% of the shares of LMZ and has a seat on LMZ's Board of directors. The Company supplies to LMZ electricity at the tariffs approved by the St.Petersburg REC.

Peterburgregiongaz. The General Director of Peterburgregiongaz is a member of the Company's Board of Directors. Peterburgregiongaz is the Company's main fuel supplier, supplying gas at the prices approved by the FEC.

Note 6: Related Parties (continued)

LEIVO. The Company owns 50% of the share capital of LEIVO, the other 50% being owned by Fortum. LEIVO supplied insignificant volumes of telecommunication services to the Company in 2001 and 2000.

Balances and transactions with related parties of the Company as at and for the years ended 31 December 2001 and 31 December 2000 consist of the following:

	Volume of transactions		Receivable/(payable) as at 31 December	
	2001	2000	2001	2000
RAO UES				
Subscription fee	1,128	799	(462)	(644)
Lease of Kirishi GRES	66	80		
CARES				
Interest-free loan received	1,608	-	(1,193)	-
NWS				
Purchases of electricity	323	-	(35)	-
Fortum				
Supply of electricity	167	157	28	40
LMZ				
Supply of electricity	114	83	20	19
Peterburgregiongaz				
Purchases of gas	3,301	4,372	-	(89)

Directors' remuneration. Total remuneration paid to the members of the Board of Directors was RR 569 thousand and RR 1,103 thousand for the years ended 31 December 2001 and 31 December 2000 respectively.

Note 7: Property, plant and equipment

Cost	Electricity and Heat Generation	Electricity distribution	Heating networks	Construction in Progress	Other	Total
Opening balance as at 31 December 2000	17,349	14,637	14,136	5,233	5,635	56,990
Additions	86	51	44	555	124	860
Transfers	101	274	560	(1,326)	391	-
Disposals	(103)	(345)	(10)	(1)	(36)	(495)
Closing balance as at 31 December 2001	17,433	14,617	14,730	4,461	6,114	57,355

Accumulated depreciation						
Opening balance as at 31 December 2000	(2,738)	(6,846)	(1,652)	-	(1,750)	(12,986)
Charge for 2001	(924)	(2,350)	(580)	-	(661)	(4,515)
Disposals	20	94	3	-	15	132
Closing balance as at 31 December 2001	(3,642)	(9,102)	(2,229)	-	(2,396)	(17,369)
Net book value as at 31 December 2000	**14,611**	**7,791**	**12,484**	**5,233**	**3,885**	**44,004**
Net book value as at 31 December 2001	**13,791**	**5,515**	**12,501**	**4,461**	**3,718**	**39,986**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into production, including generating stations under construction. Other fixed assets include motor vehicles, computer equipment, office fixtures and other equipment.

A portion of fixed asset additions has been paid for through mutual settlement and other non-cash means. Non-cash transactions in respect of property, plant and equipment are:

	Year ended 31 December 2001	Year ended 31 December 2000
Non-cash acquisitions	217	152
Non-cash proceeds from the sale of property, plant and equipment	32	220

For details on property, plant and equipment pledged as collateral see Note 16.

Impairment. Management have assessed the recoverability of property, plant and equipment as at 31 December 2001 and 31 December 2000. Value in use has been estimated through a review of discounted future cash flows, using a discount rate of 17%. Based on these assessments no reduction in the carrying amounts of property, plant and equipment was considered necessary.

Management has used various assumptions in the estimation of discounted future cash flows. In management's opinion, the assumptions used are the most appropriate given the current economic conditions affecting the Company. Variations in these assumptions may give rise to a significantly different amount for value in use, which could result in an impairment charge being recorded.

Remaining useful lives. In the first quarter of 2002, professional valuers reassessed the remaining useful lives of the Company's property, plant and equipment. This resulted in the extension of the lives currently used in the calculation of depreciation charge. The new lives will be brought into effect prospectively from 1 January 2002 and this will result in a reduction of depreciation charge for 2002.

Note 8: Investments

	31 December 2001	31 December 2000
Available-for-sale investments		
North-West Power Station (NWS)	380	380
Leningrad Metal Plant (LMZ)	100	100
Other	45	70
Total	**525**	**550**

Investment in NWS is stated net of an impairment provision of RR 579 million, assessed by management on the basis of recoverable value determined by reference to available market analysis. There has been no movement in the impairment provision in the years ended 31 December 2001 and 31 December 2000.

Investment in LMZ is stated at its fair value determined by management on the basis of available market information for LMZ shares.

Note 9: Other non-current assets

	31 December 2001	31 December 2000
Restructured trade receivables	294	901
Less: current portion	(163)	(676)
	131	225
Intangible assets	19	38
Total	**150**	**263**

Certain trade receivables, principally those from local government organizations, were restructured in April 2000 and as a result are due to be realised after more than one year from the balance sheet date. They are stated at amortised cost using the discount rates between 45% and 52%. The non-current portion of these restructured trade receivables amounts to RR 131 million (net of allowance for doubtful debtors of RR 117 million) as at 31 December 2001 (as at 31 December 2000: RR 225 million net of allowance for doubtful debtors of RR 308 million). At the balance sheet date, the fair value of the restructured receivables was RR 372 million (as at 31 December 2000: RR 1,040 million), which is estimated by discounting the future contractual cash flows at the current market interest rates which would be available to the debtors for similar financial instruments.

The above restructuring agreement had an addendum according to which the Company's trade payables to the main gas suppliers were also restructured on the same terms as the trade receivables. The gain of RR 169 million (year ended 31 December 2000: RR 313 million) which arose on the settlement of restructured receivables discounted in prior periods was equal to the loss on settlement of restructured payables and was netted off this loss within monetary effects and financing items. The restructured payables were fully settled ahead of schedule in December 2001, with the loss of RR 136 million being included in monetary effects and financing items. The remaining restructured receivables are to be settled by quarterly installments up to the end of 2003.

Note 10: Cash and cash equivalents

	31 December 2001	31 December 2000
Cash at bank and in hand	381	316
Foreign currency accounts	6	16
Total	**387**	**332**

Note 11: Accounts receivable and prepayments

	31 December 2001	31 December 2000
Trade receivables	2,408	2,519
(Net of allowance for doubtful debtors of RR 361 million as at 31 December 2001 and RR 853 million as at 31 December 2000)		
Current portion of long-term receivables	163	676
Value added tax recoverable	599	945
Prepayments and accrued income	273	372
Other receivables	72	29
(Net of allowance for doubtful debtors of RR 109 million as at 31 December 2001 and RR 130 million as at 31 December 2000)		
Total	**3,515**	**4,541**

Management has determined the allowances for doubtful debtors based on specific customer identification, industry payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 20 - 28 percent (as at 31 December 2000: 26 - 34 percent), have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. Management believes that the Company will be able to realise the net receivable amount through direct collections and other non-cash settlements and that therefore the recorded value approximates their fair value. In 2001, approximately 20% (2000:

32%) of the settlements of the Company's accounts receivable were via non-cash settlements.

Trade receivables as at 31 December 2001 include an amount of RR 257 million (as at 31 December 2000: RR 203 million) receivable from energy wholesalers related to the period from November 2000 through January 2001. The debtors claim that they should have been given a discount in this amount, based on their interpretation of a relevant FEC decision. The Company is in the process of recovering these receivables in the arbitration court and management believes that they will successfully recover the disputed amounts.

Note 12: Inventories

	31 December 2001	31 December 2000
Fuel production stocks	281	227
Materials and supplies	501	381
Other inventories	52	113
Total	**834**	**721**

For details on inventories pledged as collateral see Note 16.

Note 13: Shareholders' equity

Share Capital	**Number of shares issued and fully paid**	**31 December 2001**	**31 December 2000**
Ordinary shares	766,035,008	4,461	4,461
Preference shares	131,328,000	765	765
Total	**897,363,008**	**5,226**	**5,226**

Note 13: Shareholders' equity (continued)

The authorised number of ordinary and preference shares are 765,035,008 and 131,328,000 respectively, both with a nominal value per share of 1 Russian Rouble. All authorised shares have been issued. The value of the share capital is stated in terms of the purchasing power of the Russian Rouble at the balance sheet date.

Ordinary shares and preference shares. Preference shares are not convertible into ordinary shares and are entitled to a minimum annual dividend of 10 percent of net statutory profit. In total the preference dividend may not be less than the ordinary dividend and it should be paid ahead of payment of dividend to ordinary shareholders. Preference shares carry no voting rights except when decisions concerning reorganisation or liquidation of the Company or changes to the Charter are considered or when dividends on preference shares have not been declared fully at the Annual Shareholder's meeting. In liquidation preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares (“liquidation value”). Following this, preference shareholders then participate equally in the distribution of remaining assets with ordinary shareholders.

Dividends. The annual statutory accounts of the Company are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the current year net profit. For the year ended 31 December 2001, the statutory profit for the Company, as reported in the published annual statutory reporting forms, was RR 1,005 million (2000: RR 27 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

There were no dividends either declared or paid in the years ended 31 December 2001 and 31 December 2000. Dividends for the year ended 31 December 2001 approved by the Annual General Meeting on 23 May 2002 were RR 0.3324 per ordinary share and RR 0.7653 per preference share.

Treasury shares. As at 31 December 2001 and 2000, two of the Company's subsidiaries, OAO Petroenergobank and ZAO Petroelectrosbyt, held 0.004 percent and 0.006 percent, respectively, of the Company's share capital. Any adjustment to equity in respect of these treasury shares would be immaterial.

Note 14: Profits tax

	Year ended 31 December 2001	Year ended 31 December 2000
Profits tax charge - current	553	111
Deferred tax credit - origination and reversal of temporary differences	(4,055)	(3,906)
Deferred tax credit - effect of change in tax rate	(1,057)	(197)
Profits tax credit	**(4,559)**	**(3,992)**

Current profits tax. The current profits tax charge represents the tax provision based on the Company's statutory taxable profits, calculated at the rate of 29.36 percent (2000: 30 percent), which represents the effective weighted average rate applicable in the two tax regions in which the Company operates - St.Petersburg (29%; 2000: 30%) and Leningrad oblast (30%).

Deferred profits tax. As a result of the changes in the Russian tax legislation which were enacted in August 2001, effective 1 January 2002, the profits tax rate has been changed to 24 percent. Deferred tax assets and liabilities as at 31 December 2001 are measured at 24% (31 December 2000: 29.36%), the rate which is applicable for when the underlying temporary difference will reverse.

Note 14: Profits tax (continued)

Loss before taxation for financial reporting purposes is reconciled to the tax credit as follows:

	Year ended 31 December 2001	Year ended 31 December 2000
Loss before taxation	(1,469)	(3,580)
Theoretical tax credit at an average statutory tax rate of 29.36% thereon (2000: 30%)	(432)	(1,074)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Net non-deductible expenses	147	78
- Non-temporary elements of monetary gains / losses	1,984	2,275
Inflation effect on deferred tax balance at beginning of the period and current tax charge	(903)	(1,590)
Effect of tax rate reduction on deferred taxes	(1,057)	(197)
Temporary difference on statutory revaluation of tax base	(4,361)	(3,553)
Other	63	69
Total tax credit	(4,559)	(3,992)

The non-temporary elements of monetary gains and losses reflect the effect on the theoretical tax credit of inflation with respect to non-monetary items of a non-temporary nature (e.g. shareholders' equity and deferred profits tax liability).

Differences between IAS and Russian tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes.

Deferred profits tax liability	31 December 2001	Effect of change in tax rate	Movement for the year	31 December 2000
Property, plant and equipment	(120)	1,001	4,777	(5,898)
Trade receivables	(48)	11	(173)	114
Liabilities	(129)	29	(52)	(106)
Other	21	16	(497)	502
Total	**(276)**	**1,057**	**4,055**	**(5,388)**

Under the profits tax legislation currently enacted, the statutory revaluation of property, plant and equipment as at 1 January 2002 can be taken into account when calculating deductible depreciation charge for profits tax purposes. Accordingly, the deferred tax liability calculated above has been reduced by the amount of RR 4,361 million to reflect the impact of the increased depreciation resulting from the revaluation recorded by the Company as at 1 January 2002. However, certain amendments to the legislation have been proposed and are currently being considered by the State Duma. If these amendments were to be approved, the additional depreciation charge arising from the 1 January 2002 revaluation would be non-deductible for tax purposes and the deferred tax liability would increase accordingly. Management cannot determine the probability of the proposed amendments being approved.

Note 15: Non-current debt

	Currency	Interest rate	Due	31 December 2001	31 December 2000
CARES (see Note 6)	RR	0%	2001 and thereafter	1,193	-
Other long-term debt	RR	0%	2001 and thereafter	60	58
Total non-current debt				1,253	58
Less: current portion				(496)	(8)
				757	**50**

-

Maturity table	31 December 2001	31 December 2000
Due for repayment		
Between one and two years	408	15
Between two and five years	343	29
After 5 years	6	6
	757	**50**

Non-current debt has been recorded net of discounts, calculated at discount rates of 20 - 26 percent (as at 31 December 2000: 22 - 26 percent). The effects of discounting are included in monetary effects and financing items (Note 19). At the balance sheet date, the fair value of non-current debt approximated its amortised cost.

Note 16: Current debt and current portion of non-current debt

	Interest rate	31 December 2001	31 December 2000
Current debt	18%	222	300
Current portion of non-current debt		496	10
		718	**310**

The current portion of non-current debt is included at amortised cost (see Note 15).

Property, plant and equipment with a net book value of approximately RR 1,035 million (2000: nil) and inventories with a value of approximately RR 65 million (2000: RR 118 million) were pledged as collateral on the short-term borrowings.

Note 17: Accounts payable and accrued charges

	31 December 2001	31 December 2000
Trade payables	1,488	5,772
Accrued liabilities and other creditors	1,076	449
Bills of exchange payable	10	277
Total	**2,574**	**6,498**

In 2001, approximately 45 percent (year ended 31 December 2000: 52 percent) of the Company's settlements of accounts payable and accrued charges were made via non-cash settlements.

Note 18: Taxes payable

	31 December 2001	31 December 2000
Value added tax	356	605
Profits tax	411	169
Turnover taxes	51	147
Property tax	42	27
Other taxes	52	74
Total	**912**	**1,022**

Included in the balances above are certain amounts which only become payable to the authorities when the underlying receivable balance is recovered, namely:

- in value added tax - RR 273 million (2000: RR 447 million)
- in turnover taxes - RR 24 million (2000: RR 23 million)

Substantially all accrued taxes above, excluding the deferred amounts, incur interest in accordance with applicable legislation. Interest does not accrue on tax penalties and interest.

In the years ended 31 December 2001 and 2000 all of the Company's settlements of taxes payable were in cash.

Note 19: Monetary effects and financing items

	Year ended 31 December 2001	Year ended 31 December 2000
Monetary gain	225	473
Gain on discounting of non-current debt (Note 6)	415	-
Gain on settlement of receivables previously discounted	57	169
Loss on settlement of restructured payables (Note 9)	(136)	-
Interest expense	(57)	(56)
Foreign exchange gain/	7	(1)

(loss)		
Total	**511**	**585**

Note 20: Earnings per share

Earnings per share is calculated by dividing the net income attributable to shareholders after the deduction of the declared dividend to preference shareholders, by the weighted average number of ordinary and preference shares outstanding during the period.

	Year ended 31 December 2001	Year ended 31 December 2000
Weighted average number of ordinary shares outstanding (thousands)	766,035	766,035
Weighted average number of preference shares outstanding (thousands)	131,328	131,328
Total weighted average number of shares outstanding (thousands)	897,363	897,363
Net income	3,090	412
Earnings per share - basic and diluted (in Russian Roubles)		
• Ordinary • Preference	3.44 3.44	0.46 0.46

Note 21: Commitments

Sales commitments. The Company has two export contracts with Fortum (see Note 6). One contract is for the supply of between 350 GWh and 500 GWh of electricity per annum at a basic price of Euro 17 per MWh, adjusted for the changes in annual wholesale price index in Finland, through to the end of 2008. The second contract is for free of charge electricity supplies of 19.9 GWh per annum, through to the end of 2003.

Fuel commitments. The Company has a number of fuel contracts. These fuel contracts are for a period of one year and represent less than the total annual fuel requirement of the Company. The purchase prices of these contracts are fixed at the level determined by FEC (for gas) and at market level (for mazut). Additional fuel requirements for 2002 in excess of amounts contracted will be purchased through short-term agreements on a spot basis.

Social commitments. The Company contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 431 million at 31 December 2001 (RR 108 million at 31 December 2000).

Lease commitments. The Company has a non-cancellable long-term operating lease agreement with RAO UES for property, plant and equipment of Kirishi GRES. The agreement is effective until 31 December 2002. The future aggregated minimum lease payments as at 31 December 2001 are RR 61 million payable within one year, including RR 29 million payable in cash and RR 32 million payable by the Company in form of capital construction works and capital improvements to the leased property, plant and equipment.

Note 22: Contingencies

Political environment. The operations and earnings of the Company entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

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

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

Taxation. Russian tax legislation is subject to varying interpretations and changes occurring frequently. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

Industry changes. As described in Note 1, Government has passed several resolutions in respect of restructuring the electricity sector in Russia. Management currently is unable to estimate the effects of reforms or the resulting future impact on the financial position of the Company.

Environmental matters. The Company and its 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 Company periodically evaluates their obligations under environmental regulations. Potential liabilities might arise as a result of changes in legislation and regulations or civil litigation. The impact of these potential changes 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.

Note 23: Financial instruments and financial risk factors

Financial risk factors. The Company's activities expose it to a variety of financial risks, including the effects of: changes in foreign currency exchange rates, changes in interest rates and the collectibility of receivables. The Company does not have a risk policy to hedge its financial exposures.

Credit risk. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the allowance for doubtful debtors already recorded.

Foreign exchange risk. The Company primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Company's purchases are denominated in

Russian Roubles. The major concentration of foreign exchange risk is in relation to foreign currency denominated sales commitments, as disclosed in Note 21.

Interest rate risk. Interest rates on the outstanding debt are fixed. Assets are generally non-interest bearing.