OPEN JOINT STOCK COMPANY LENENERGO

IFRS Consolidated Financial Statements
For the year ended 31 December 2002

AUDITORS' REPORT

To the Shareholders and Board of Directors of the Open Joint-Stock Company Lenenergo ("JSC Lenenergo")

We have audited the accompanying consolidated balance sheet of JSC Lenenergo (hereinafter referred to as the "Company") as of 31 December 2002, and the related consolidated statements of operations, of cash flows, and of changes in shareholders' equity for the year then ended. These consolidated financial statements, set out at pages 1 through 22, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
13 May 2003

	Notes	31 December 2002	31 December 2001
Assets			
Non-current assets			
Property, plant and equipment	7	44,976	46,032
Available-for-sale investments	8	491	604
Other non-current assets	9	9	173
Total non-current assets		**45,476**	**46,809**
Current assets			
Cash and cash equivalents	10	363	446
Accounts receivable and prepayments	11	4,271	4,046
Inventories	12	1,041	960
Other current assets		179	31
Total current assets		**5,854**	**5,483**
Total assets		**51,330**	**52,292**
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 766 million)		5,136	5,136
Preference shares (nominal value RR 131 million)		881	881
Fair value reserve		41	-
Retained earnings		35,844	40,229
Total shareholders' equity		**41,902**	**46,246**
Non-current liabilities			
Deferred tax liability	14	4,638	318
Non-current debt	15	409	871
Other non-current liabilities		17	16
Total non-current liabilities		**5,064**	**1,205**
Current liabilities			
Current debt and current portion of non-current debt	16	646	827
Accounts payable and accrued charges	17	2,894	2,964
Taxes payable	18	824	1,050
Total current liabilities		**4,364**	**4,841**

Total shareholders' equity and liabilities	**51,330**	**52,292**

General Director -Likhachev A.N.
First Deputy General Director - Androsov K.G.
13 May 2003

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
Revenues			
Electricity		16,587	15,009
Heating		6,816	5,679
Other		939	436
Total revenues		**24,342**	**21,124**
Costs and other deductions			
Fuel expenses		(6,028)	(5,339)
Purchased power		(5,315)	(4,896)
Depreciation	7	(2,841)	(5,198)
Wages and payroll taxes		(2,436)	(2,272)
Transmission fees		(2,019)	(1,299)
Repairs and maintenance		(1,313)	(1,004)
Other expenses		(1,113)	(1,006)
Water costs		(867)	(787)
Taxes other than on income		(746)	(679)
Other materials		(335)	(419)
Doubtful debtors expense		(247)	-
Social expenditures		(234)	(58)
Impairment of investment in NWS	8	(168)	-
Rental fees		(95)	(76)
Loss on disposal of non-current assets		(8)	(371)
Total costs and other deductions		**(23,765)**	**(23,404)**
Profit / (loss) from operations Income/(loss) from operations Income/(loss) from operations		**577**	**(2,280)**
Monetary effects and financing items	19	(157)	588
Profit / (loss) on ordinary activities before taxation		**420**	**(1,692)**
Profits tax (charge) / credit	14	(4,430)	5,248
Net (loss) / profit		**(4,010)**	**3,556**
(Loss) / earnings per share - basic and diluted - in Russian Roubles:	20		
· Ordinary · Preference		(4.47) (4.47)	3.96 3.96

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13 May 2003

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) on ordinary activities before taxation		**420**	**(1,692)**
Adjustments to reconcile profit / loss on ordinary activities before taxation to net cash provided by operations:			
Depreciation	7	2,841	5,198
Gain on settlement of discounted receivables	19	(87)	(66)
Gain on discounting of non-current debt	19	-	(478)
Interest expense on discounted non-current debt	19	208	-
Doubtful debtors expense		247	-
Loss on settlement of restructured payables	19	-	157
Bank interest expense (net)	19	34	66
Loss on disposal of non-current assets		8	371
Impairment of investment in NWS	8	168	-
Adjustment for non-cash investing activities		(150)	(213)
Monetary effect on non-operating balances		(34)	62
Operating profit before working capital changes		**3,655**	**3,405**
(Increase) / decrease in accounts receivable and prepayments		(219)	1,377
Decrease in accounts payable and accrued charges		(71)	(4,517)
(Increase) / decrease in other current assets		(149)	159
Increase / (decrease) in taxes payable other than profits tax		96	(458)
Increase / (decrease) in non-current liabilities		3	(244)
Increase in inventories		(81)	(130)
Profits tax paid		(506)	(347)
Net cash provided by / (used in) operating activities		**2,728**	**(755)**
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(1,658)	(740)
Proceeds from sale of property, plant and equipment		15	12
Net cash used in investing activities		**(1,643)**	**(728)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current debt		1,450	4,132
Proceeds from non-current debt		-	1,273
Reduction of debt		(2,154)	(3,560)
Interest paid (net)		(34)	(227)
Dividends paid		(375)	-
Net cash (used in)/ provided by financing activities		**(1,113)**	**1,618**
Effect of inflation on cash and cash equivalents		**(55)**	**(71)**
(Decrease) / increase in cash and cash equivalents		**(83)**	**64**
Cash and cash equivalents at the beginning of year	10	**446**	**382**
Cash and cash equivalents at the end of year	10	**363**	**446**

General Director -Likhachev A.N.
First Deputy General Director - Androsov K.G.
13 May 2003

	Ordinary share capital	Preference share capital	Fair value reserve	Retained earnings	Total shareholders' equity
At 31 December 2000	**5,136**	**881**	**-**	**36,673**	**42,690**
Net profit	-	-	-	3,556	3,556
At 31 December 2001	**5,136**	**881**	**-**	**40,229**	**46,246**
Net loss	-	-	-	(4,010)	(4,010)
Dividends (Note 13)	-	-	-	(375)	(375)
Revaluation of investments to current market value (Note 8)	-	-	54	-	54
Deferred tax effect of revaluation (Note 14)	-	-	(13)	-	(13)
At 31 December 2002	**5,136**	**881**	**41**	**35,844**	**41,902**

General Director -Likhachev A.N.
First Deputy General Director - Androsov K.G.
13 May 2003

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.

Up to 31 December 2002, the Company's operations included approximately 5,300 megawatts ("MW") of installed generating capacity. Included in this total was 2,100 MW of installed generating capacity of Kirishi Power Station (GRES), which was leased from Russian Joint-Stock Company Unified Energy System of Russia ("RAO UES") under a non-cancellable long-term operating lease agreement which terminated on 31 December 2002. In 2002, Kirishi GRES produced 25% of the Company's electricity and 12% of heat. Starting from 1 January 2003, the Company substitutes the electricity previously generated by Kirishi GRES with purchases via FOREM.

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 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 2002, the number of employees of the Company was approximately 17,300 (31 December 2001: approximately 17,900).

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

Relations with the state. At 31 December 2002, 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 coordinated 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 IFRS 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.

Note 1: The Company and its operations (continued)

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

Industry restructuring. The power sector and the Company are presently undergoing restructuring designed to introduce competition into the electricity sector. Under Government Resolution No. 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulated market is being set up to sell 5-15 percent of the electricity generated. Subsequently all electricity generated is expected to be sold in a competitive, wholesale market. In accordance with the "Action Plan for the 1st Stage of the Electric Utilities Reform" approved by Government Directive No. 471-p dated 5 April 2002, the following is being undertaken:

- Trade System Administrator ("TSA") - in November 2001, a non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market UES" was created to manage the new wholesale market;

- Federal Grid Company - OAO "FSK UES" ("FSK") was established in June 2002 to manage the transmission operations using the transmission assets obtained from RAO UES and its subsidiaries and associates;

- System Operator - "OAO System Operator - Central Dispatch Unit of Unified Energy System" ("SO") - SO was established in June 2002, to carry out the dispatch functions within RAO UES;

- RAO UES has drafted guidelines that set out the process for establishing wholesale generation companies, including a listing of the power stations included therein. At present, ministries and government agencies of the Russian Federation are considering these guidelines. Further, consultations are being held with heads and representatives of the regions whose power stations are earmarked for integration within the wholesale generation companies; and

- The subsidiaries and associates of RAO UES, including the Company, are drafting plans for reforming the said subsidiaries and associates.

As part of the restructuring process, amendments to Russian laws governing the future structure and foundations of the electricity market are being considered by legislative bodies of the Russian Federation. The State Duma of Russian Federation has passed on third reading bills on the electric utilities that have been introduced by the Russian Federation.

At this time, the impacts of the industry changes on both the financial results and position of the Company cannot be readily assessed and, accordingly, no provision has been recognised for the effects of the restructuring process.

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 which are generally lower than under an International Financial Reporting Standards ("IFRS") 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, plant 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 2002.

Note 2: Financial situation (continued)

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

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:

- introduction of improved financial budgeting procedures; a strong focus on timely cash collection of current receivables; restructuring of liabilities for repayment over a longer period;
- collection of old receivables, including such measures as court action, seizure of the debtors' assets, restriction of energy and/or heat supply, etc.;
- negotiations with strategic and financial investors, and identification and assessment of projects requiring investment funds; and
- obtaining additional tariff increases - the tariffs, which in 2002 increased by approximately 27% on average compared with 2001, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

The Company and its subsidiaries maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (RAR). These consolidated 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 IFRS.

The preparation of consolidated financial statements in conformity with IFRS 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 and useful lives 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.

The Company adopted IAS 39 "Financial Instruments: Recognition and Measurement" in 2001.

Accounting for the effect of inflation. The adjustments and reclassifications made to the statutory records for the purposes of IFRS 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. Corresponding figures, for the year ended 31 December 2001, have also been restated for the changes in the general purchasing power of the RR at 31 December 2002.

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.

Note 3: Basis of presentation (continued)

The index used to restate the balance sheet, based on 1988 prices (1988 = 100), as at 31 December 2002, and the respective conversion factors are:

Date	Index	Conversion Factor
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
31 December 2002	2,730,154	1.00

The significant guidelines followed in restating these consolidated financial statements are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31 December 2002;
- monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;
- 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 (those Balance Sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of operations 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 operations as a net monetary gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29.

Note 4: Summary of significant accounting policies

Principles of consolidation. Subsidiary undertakings, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights and/or is able to exercise control over the operations, have been consolidated. Control is deemed to exist when the Company controls greater than 50 percent of voting rights or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between the Company and its subsidiaries and between subsidiaries have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

Associated undertakings, those entities over which the Company exerts significant influence and normally holds a voting interest of between 20% and 50%, are accounted for under the equity method.

Certain subsidiary and associate companies that are neither individually nor in aggregate material to the results of operations, cash flows or financial position of the Company are recorded at historical cost as restated in accordance with IAS 29 and included in available-for-sale investments. When there is a diminution in value, other than temporary, a provision is recognised and charged as expense to the statement of operations.

Note 4: Summary of significant accounting policies (continued)

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 include 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.

All purchases and sales of investments are recognized 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 operations in the period in which they arise.

Foreign currency. Monetary assets and liabilities, which are 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 operations.

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 2002 was RR 31.78:US$1 (31 December 2001: RR 30.14:US$1). Exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies. The RR is not freely convertible in most countries 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 2002 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 operations. 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.

Note 4: Summary of significant accounting policies (continued)

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 operations 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.

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

Deferred connection fees representing contributions received from new customers to compensate for the expenditure related to extending the Company's networks to connect those customers, are shown as a deduction from the carrying value of construction in progress.

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction, and is not depreciated.

Depreciation. The Company, with the assistance of professional valuers, reassessed the remaining useful lives of the major categories of the Company's property, plant and equipment as at 1 January 2002. This resulted in the extension of the lives used in the calculation of depreciation. Starting from 1 January 2002, property, plant and equipment acquired prior to that date is to be depreciated over the following remaining useful lives (in years):

Type of facility

Electricity and heat generation	17 to 26
Electricity distribution	17 to 19
Heating networks	16

The remaining useful lives of Other property, plant and equipment were assessed by management as at 1 January 2002. As a result, the carrying value of Other property, plant and equipment as at 1 January 2002 is to be depreciated over 5 years beginning from that date.

Additions to fixed assets made after 1 January 2002 are depreciated over the following periods which approximate their estimated useful lives (in years):

Type of facility

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

Prior to 2002, depreciation was calculated as follows: for the property, plant and equipment which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied was based on the estimated remaining useful lives as at the valuation date, while additions made after that date were depreciated over their estimated useful lives. The useful lives of assets by type of facility were as follows (in years):

Type of facility

	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	11 to 35	20 to 50
Electricity distribution	5 to 13	25
Heating network	13	20
Other	8	10

Note 4: Summary of significant accounting policies (continued)

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.

Mutual settlements and non-cash transactions. A minor portion of sales and purchases are settled by mutual settlements and non-cash settlements. These settlements are generally in the form of cancellation of mutual balances or through a chain of non-cash settlements 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. The fair value is determined with reference to various market information.

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 related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases, which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Provision for impairment of trade receivables is recorded for the gross amount of the debtor, including VAT. The amount of this VAT is deducted from the deferred VAT liability.

Inventories. Inventories are carried 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. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Deferred profits taxes. Deferred profits tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred profits tax is 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 operations (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.

Note 4: Summary of significant accounting policies (continued)

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 operations 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 2002 or 2001.

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.

Provisions. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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's.

Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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.

Note 5: Subsidiaries

The only subsidiary enterprise material for the Company's operations during the years ended 31 December 2002 and 31 December 2001 and, therefore, consolidated in these financial statements, was Closed Joint-Stock Company Petroelectrosbyt, incorporated and operating in the Russian Federation. Its principal business is collection of cash payments from residential customers on behalf of the Company. The Company held 75% ownership and voting interest in Petroelectrosbyt as at and during the years ended 31 December 2002 and 31 December 2001.

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 and also provides system safety services.

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. Interest expense of RR 208 million (2001: gain on discounting of RR 478 million) is included in monetary effects and financing items in respect of the amortisation of the gain recognised at the inception of the loan. This loan was transferred to RAO UES in 2002.

North-West Power Station (NWS). The Company owns 13.8% of the share capital of NWS, which is also controlled by RAO UES. In 2002 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 6% of the Company's share capital and a representative of that company holds a seat on the Company's Board of directors. All the Company's export sales in 2001 and 2002 were made to Fortum. See Note 21 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 was a member of the Company's Board of Directors until May 2002. Also, similarly to the Company, Peterburgregiongaz is ultimately controlled by the State. Peterburgregiongaz is the Company's main fuel supplier, supplying gas at the prices approved by the FEC. Volume of transactions with Peterburgregiongaz in the table below represents gas supplied during the period January - May 2002.

Balances and transactions with the above related parties as at and for the years ended 31 December 2002 and 31 December 2001 consist of the following:

	Volume of transactions		Receivable/(payable) as at 31 December	
	2002	**2001**	**2002**	**2001**
RAO UES				
Subscription fee	1,717	1,299	(1,111)	(532)
System safety services	9	-		
CARES loan repaid	(536)	-		
Lease of Kirishi GRES	65	76		
CARES				
Interest-free loan received	-	1,851	-	(1,373)
NWS				
Purchases of electricity	363	372	(11)	(40)
Fortum				
Supply of electricity	181	192	30	32
LMZ				
Supply of electricity and heat	150	131	21	23
Peterburgregiongaz				
Purchases of gas	1,809	3,800	(13)	-

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 2002 and 2001.

Novgorodenergo. The Company issued a guarantee to Industry and Construction Bank on the loan granted by this credit institution to Novgorodenergo, which is a fellow subsidiary of RAO UES, in the amount of RR 150 million.

Directors' remuneration. Total remuneration paid to the members of the Board of Directors, solely in respect of their duties as the members of that body, was RR 2,716 thousand and RR 655 thousand for the years ended 31 December 2002 and 31 December 2001 respectively.

In 2002 the General Director of the Company received an interest-free loan of RR 3,180 thousand from Petroelectrosbyt, repayable in instalments over seven years.

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 2001	20,069	16,827	16,957	5,136	7,038	66,027
Additions	84	141	-	1,415	168	1,808
Transfers	101	249	344	(741)	47	-
Disposals	(11)	(22)	-	-	(42)	(75)
Closing balance as at 31 December 2002	20,243	17,195	17,301	5,810	7,211	67,760
Accumulated depreciation						
Opening balance as at 31 December 2001	(4,193)	(8,186)	(4,858)	-	(2,758)	(19,995)
Charge for 2002	(728)	(474)	(772)	-	(867)	(2,841)
Disposals	3	6	-	-	43	52
Closing balance as at 31 December 2002	(4,918)	(8,654)	(5,630)	-	(3,582)	(22,784)
Net book value as at 31 December 2001	**15,876**	**8,641**	**12,099**	**5,136**	**4,280**	**46,032**
Net book value as at 31 December 2002	**15,325**	**8,541**	**11,671**	**5,810**	**3,629**	**44,976**

Additions to construction in progress are shown net of deferred connection fees of RR 149 million.

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 2002	Year ended 31 December 2001
Non-cash additions	150	250
Non-cash proceeds from the sale of property, plant and equipment	-	37

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

Note 7: Property, plant and equipment (continued)

Impairment. Management have assessed the recoverability of property, plant and equipment as at 31 December 2002 and 31 December 2001. Value in use has been estimated through a review of discounted future cash flows, using a discount rate of 16% (2001: 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. As described in the accounting policies note, in the first quarter of 2002 the Company reassessed the remaining useful lives of property, plant and equipment. This resulted in the extension of the lives currently used in the calculation of depreciation charge. The new lives were brought into effect prospectively from 1 January 2002 and this resulted in a reduction of the depreciation charge for 2002 by RR 2,740 million.

Note 8: Available-for-sale investments

	31 December 2002	31 December 2001
North-West Power Station (NWS)	269	437
Leningrad Metal Plant (LMZ)	169	115
Other	53	52
Total	**491**	**604**

The investment in NWS is stated net of an impairment provision of RR 835 million (2001: RR 667 million), assessed by management on the basis of its recoverable value.

The investment in LMZ is stated at its fair value determined by management on the basis of available market information for LMZ shares. The increase in the fair value during the year ended 31 December 2002 of RR 54 million has been credited to the fair value reserve.

Note 9: Other non-current assets

	31 December 2002	31 December 2001
Restructured trade receivables	250	339
(Net of allowance for doubtful debtors of RR 59 million as at 31 December 2002 and RR 135 million as at 31 December 2001)		
Less: current portion	(250)	(188)
	-	151
Intangible assets	9	22
Total	**9**	**173**

Certain trade receivables, principally those from local government organizations, were restructured in April 2000. These receivables are due to be realized within one year from the reporting date as at 31 December 2002. They are stated at amortised cost using discount rates of between 45% and 52%. At the balance sheet date, the fair value of the restructured receivables was RR 283 million (as at 31 December 2001: RR 428 million), which is estimated by discounting the future contractual cash flows at the rate of 18% (2001: 20% to 21%), being the estimated current market interest rate for similar financial instruments.

Note 10: Cash and cash equivalents

	31 December 2002	31 December 2001
Cash at bank and in hand	349	439
Foreign currency accounts	14	7
Total	**363**	**446**

Note 11: Accounts receivable and prepayments

	31 December 2002	31 December 2001
Trade receivables	2,806	2,772
(Net of allowance for doubtful debtors of RR 503 million as at 31 December 2002 and RR 281 million as at 31 December 2001)		
Current portion of long-term receivables	250	188
Value added tax recoverable	527	690
Prepayments and accrued income	436	314
Other receivables	252	82
(Net of allowance for doubtful debtors of RR 23 million as at 31 December 2002 and RR 109 million as at 31 December 2001)		
Total	**4,271**	**4,046**

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 18 - 26 percent (as at 31 December 2001: 20 - 28 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 non-cash settlements and that therefore the recorded value approximates their fair value. In 2002, approximately 4% (2001: 20%) of the settlements of the Company's accounts receivable were via non-cash settlements.

Trade receivables include an amount of RR 165 million (net of allowance for doubtful debtors of RR 95 million) as at 31 December 2002 (as at 31 December 2001: RR 250 million net of allowance for doubtful debtors of RR 49 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 the gross amount, based on their interpretation of a relevant FEC decision. The Company is in the process of recovering these receivables via a claim through the arbitration court; management believes that the Company will successfully recover the carrying value of the disputed amounts.

Note 12: Inventories

	31 December 2002	31 December 2001
Fuel production stocks	326	323
Materials and supplies	657	577
Other inventories	58	60
Total	**1,041**	**960**

Note 13: Shareholders' equity

Share Capital	Number of shares issued and fully paid	31 December 2002	31 December 2001
Ordinary shares	766,035,008	5,136	5,136
Preference shares	131,328,000	881	881
Total	**897,363,008**	**6,017**	**6,017**

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 dividends 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. Russian legislation identifies the basis of distribution as net profit. For the year ended 31 December 2002, the current year statutory profit of the Company, as reported in the published annual statutory reporting forms, was RR 1,280 million (2001: RR 1,005 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 consolidated financial statements.

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 amounting to RR 375 million in total. These dividends were fully paid by the Company in 2002. No dividends for the year ended 31 December 2002 have been declared by the date of issuance of these consolidated financial statements.

The Board of directors proposed for the approval at the Annual General Meeting of the shareholders of the Company to be held in May 2003 dividends of RR 1.055 on both ordinary and preferred shares in respect of 2002 amounting to a total dividend of RR 947 million. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2003.

Treasury shares. As at 31 December 2002 and 2001, one of the Company's subsidiaries, Petroelectrosbyt, held 0.006 percent of the Company's share capital. Also, 0.004 percent was held by Petroenergobank, a subsidiary as at 31 December 2001, which became an associate during 2002. Any adjustment to equity in respect of these treasury shares would be immaterial.

Note 14: Profits tax

	Year ended 31 December 2002	Year ended 31 December 2001
Profits tax charge - current	123	637
Deferred tax charge/(credit) - origination and reversal of temporary differences	4,307	(4,668)
Deferred tax credit - effect of change in tax rate	-	(1,217)
Profits tax charge/(credit)	**4,430**	**(5,248)**

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 24 percent (2001: 29.36 percent), which represents the effective weighted average rate applicable in the two tax regions in which the Company operates - St. Petersburg (24%; 2001: 29%) and Leningrad oblast (24%; 2001: 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 was changed to 24 percent. Deferred tax assets and liabilities as at 31 December 2002 are measured at 24% (31 December 2001: 24%), the rate, which is applicable when the underlying temporary differences are expected to reverse.

Income before taxation for financial reporting purposes is reconciled to the tax charge as follows:

	Year ended 31 December 2002	Year ended 31 December 2001
Income / (loss) before taxation	420	(1,691)
Theoretical tax charge / (credit) at an average statutory tax rate of 24% thereon (2001: 29.36%)	101	(497)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Net non-deductible expenses	103	169
- Non-temporary elements of monetary gains / losses	1,463	2,284
Inflation effect on deferred tax balance at beginning of the period and current tax charge	(42)	(1,040)
Effect of tax rate reduction on deferred taxes	-	(1,217)
Release of prior year tax provision	(153)	-
Temporary difference on statutory revaluation of tax base	2,997	(5,020)
Other	(39)	73
Total tax charge/(credit)	4,430	(5,248)

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

The deferred tax charge in equity relating to revaluation of the investment in LMZ was RR 13 million.

Note 14: Profits tax (continued)

Differences between IFRS 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) / asset	31 December 2002	Effect of change in tax law	Movement for the year	31 December 2001
Property, plant and equipment	(4,576)	(2,997)	(1,441)	(138)
Trade receivables	25	-	80	(55)
Liabilities	(87)	-	62	(149)
Other	-	-	(24)	24
Total	**(4,638)**	**(2,997)**	**(1,323)**	**(318)**

The Company incorporated a revaluation of property, plant and equipment in its statutory balance sheet as at 1 January 2002 and, accordingly, claimed increased amounts of depreciation expense in their profits tax return for the year ended 31 December 2002. A deferred tax benefit of RR 5,020 million was recognized in the financial statements for the year ended 31 December 2001 in respect of the benefit arising from the recognition of the increased value of the property, plant and equipment for tax and statutory reporting purposes.

In accordance with revisions to tax legislation, approved in July 2002 and effective from 1 January 2002 (with retrospective effect), the effect of statutory revaluations of property, plant and equipment as at 1 January 2002 was restricted, such that the addition to the tax deductible value of the assets was limited to a maximum of 30% of the statutory value of property, plant and equipment as at 1 January 2001 (including revaluations up to 1 January 2001). This reduction in the tax-deductible value of the assets resulted in the recognition of a RR 2,997 million deferred tax expense in the year ended 31 December 2002.

Note 15: Non-current debt

	Currency	Interest rate		Due	31 December 2002	31 December 2001
		Nominal	Effective			
RAO UES (2001: CARES, see Note 6)	RR	0%	21-22%	2003 and thereafter	865	1,373
Other long-term debt	RR	0%	20-26%	2003 and thereafter	27	69
Total non-current debt					892	1,442
Less: current portion					(483)	(571)
					409	**871**

Maturity table	31 December 2002	31 December 2001
Due for repayment		
Between one and two years	394	470
Between two and five years	12	394
After 5 years	3	7
	409	**871**

Non-current debt has been recorded net of discounts, calculated at the rates of 20 - 26 percent (as at 31 December 2001: 20 - 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, including current portion, was RR 924 million (2001: RR 1,442 million), which is estimated by discounting the future cash flows at the current market interest rates of 16 - 18 percent (2001: 20 - 26 percent).

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

	Interest rate	31 December 2002	31 December 2001
Current debt	17%	163	256
Current portion of non-current debt		483	571
		646	**827**

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 1,702 million (2001: RR 1,191 million and inventories with a carrying value of RR 75 million) were pledged as collateral on the short-term borrowings.

Note 17: Accounts payable and accrued charges

	31 December 2002	31 December 2001
Trade payables	1,168	1,713
Advances received	1,400	816
Accrued liabilities and other creditors	326	435
Total	**2,894**	**2,964**

In 2002, approximately 22 percent (year ended 31 December 2001: 45 percent) of the Company's settlements of accounts payable and accrued charges were made via non-cash settlements.

Note 18: Taxes payable

	31 December 2002	31 December 2001
Value added tax	455	410
Profits tax	191	473
Property tax	56	48
Turnover taxes	32	59
Other taxes	90	60
Total	**824**	**1,050**

Included in the value added tax balance above is an amount of RR 281 million (2001: RR 314 million) which only becomes payable to the authorities when the underlying receivable balance is recovered.

Substantially all accrued taxes above incur interest at the refinance rate of the Central Bank of the Russian Federation. As at 31 December 2002 the refinance rate was 21 percent (31 December 2001: 25 percent).

In the years ended 31 December 2002 and 2001 all of the Company's settlements of taxes payable were in cash.

Note 19: Monetary effects and financing items

	Year ended 31 December 2002	Year ended 31 December 2001
Monetary (loss) / gain	(19)	259
Gain on discounting of non-current debt (Note 6)	-	478
Interest expense on discounted non-current debt (Note 6)	(208)	-
Gain on settlement of receivables previously discounted	87	66
Loss on settlement of restructured payables	-	(157)
Bank interest expense (net)	(34)	(66)
Foreign exchange gain	17	8
Net (loss) / gain	**(157)**	**588**

Note 20: Earnings per share

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

	Year ended 31 December 2002	Year ended 31 December 2001
Weighted average number of ordinary shares outstanding (thousands) - net of treasury shares	765,998	765,971
Weighted average number of preference shares outstanding (thousands) - net of treasury shares	131,319	131,319
Total weighted average number of shares outstanding (thousands)	897,317	897,290
Net (loss) / profit	(4,010)	3,556
(Loss) / earnings per share - basic and diluted (in Russian Roubles)		
· Ordinary · Preference	(4.47) (4.47)	3.96 3.96

Note 21: Commitments

Sales commitments. The Company has two export contracts with Fortum. One contract is for the supply of 300 GWh of electricity per annum at a basic price of Euro 16 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 either at the level determined by FEC (for gas) or at market level (for mazut). Additional fuel requirements for 2003 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 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 2,296 million at 31 December 2002 (RR 496 million at 31 December 2001), of which approximately RR 1,800 million relate to reconstruction and modernisation of power station TEC-5.

Note 22: ContingenciesPolitical 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 Com