JSC LENENERGO

INDEPENDENT AUDITORS' REPORT
&
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2003

JSC Lenenergo
Statement of Management Responsibilities

Management has prepared and is responsible for the consolidated financial statements and related notes of JSC Lenenergo. They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

JSC Lenenergo maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as JSC Lenenergo's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Likhachev A.N.
General Director

Dated: 29 April 2004

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of JSC Lenenergo at 31 December 2003 and the related consolidated statements of operations, cash flow and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of JSC Lenenergo's management. Our responsibility is to express an opinion on the 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 policies 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 give a true and fair view of the financial position of JSC Lenenergo as at 31 December 2003 and the results of its operations for the year then ended in accordance with International Financial Reporting Standards.

St Paul's House
Warwick Lane
London, England

Moore Stephens

Consolidated Balance Sheet
As at 31 December 2003 and 2002
(in million Russian Roubles)

	Notes	2003	2002
Assets			
Non-current assets			
Property, plant and equipment	**7**	44,120	44,976
Investments	**8**	406	491
Other non-current assets		5	9
Total non-current assets		**44,531**	**45,476**
Current assets			
Cash and cash equivalents		598	363
Accounts receivable and prepayments	**9**	6,058	4,271
Inventories	**10**	1,403	1,041
Other current assets		153	179
Total current assets		**8,212**	**5,854**
Less: Current liabilities			
Short-term loans	**11**	3,744	646
Accounts payable and accrued charges	**12**	4,056	2,894
Taxes payable	**13**	812	824
Total current liabilities		**8,612**	**4,364**
Net current (liabilities)/assets		**(400)**	**1,490**
		44,131	**46,966**
Financed by:			
Shareholders' equity			
Share capital	**14**	6,017	6,017
Fair value reserve		(24)	41
Retained earnings		33,936	35,844
Total shareholders' equity		**39,929**	**41,902**
Non-current liabilities			
Deferred tax liability	**16**	4,126	4,638
Non-current debt and other non-current liabilities	**15**	76	426
Total non-current liabilities		**4,202**	**5,064**
		44,131	**46,966**

Approved on behalf of the Board of Management on 29 April 2004

Likhachev A.N.
General Director

Androsov K.G.
First Deputy General Director

The accompanying notes on pages 8 to 20 form an integral part of these financial statements.

Consolidated Statement of Operations
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

	Notes	2003	2002
Revenues			
Electricity		19,089	16,587
Heating		6,456	6,816
Other		1,251	939
Total revenues		**26,796**	**24,342**
Costs and other deductions			
Fuel expenses		(4,745)	(6,028)
Purchased power		(8,984)	(5,315)
Depreciation		(2,960)	(2,841)
Wages and payroll taxes		(2,109)	(2,436)
Transmission fees	6	(2,937)	(2,019)
Repairs and maintenance		(1,868)	(1,313)
Other expenses		(1,759)	(1,113)
Water costs		(1,071)	(867)
Taxes other than on income		(539)	(746)
Other materials		(230)	(335)
Doubtful debtors expense		(635)	(247)
Social expenditures		(242)	(234)
Impairment of investments		-	(168)
Rental fees		(59)	(95)
Gain (Loss) on disposal of non-current assets		7	(8)
Total costs and other deductions		**(28,131)**	**(23,765)**
(Loss)/Profit from operations		**(1,335)**	**577**
Monetary effects and financing items	**17**	(117)	(157)
(Loss)/Profit on ordinary activities before taxation		**(1,452)**	**420**
Profit tax	**16**	**491**	**(4,430)**
Net (Loss)		**(961)**	**(4,010)**
(Loss) per share - basic and diluted			
- in Russian Roubles			
Ordinary	**18**	(1.07)	(4.47)
Preference	**18**	(1.07)	(4.47)

The accompanying notes on pages 8 to 20 form an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity
For the years ended 31 December 2003 and 2002
(in million Russian Roubles)

	Ordinary share capital	Preference share capital	Fair value reserve	Retained earnings	Total Shareholders' equity
Balance at 31 December 2001	**5,136**	**881**	**-**	**40,229**	**46,246**
Net loss	-	-	-	(4,010)	(4,010)
Dividends	-	-	-	(375)	(375)
Revaluation of investments to current market value	-	-	54	-	54
Deferred tax effect of revaluation	-	-	(13)	-	(13)
Balance at 31 December 2002	**5,136**	**881**	**41**	**35,844**	**41,902**
Net loss	-	-	-	(961)	(961)
Dividends	-	-	-	(947)	(947)
Revaluation of investments to current market value	-	-	(85)	-	(85)
Deferred tax effect of revaluation	-	-	20	-	20
Balance at 31 December 2003	**5,136**	**881**	**(24)**	**33,936**	**39,929**

JSC Lenenergo's distributable reserves are determined in accordance with JSC Lenenergo's constitution and Russian accounting regulations and do not correspond to the amounts shown above.

The accompanying notes on pages 8 to 20 form an integral part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2003 and 2002
(in million Russian Roubles)

	Notes	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/profit on ordinary activities before taxation		**(1,452)**	**420**
Adjustments to reconcile profit/loss on ordinary activities before taxation to net cash provided by operations:			
Depreciation		2,960	2,841
Doubtful debtors expense		635	247
Interest expense (net)		117	121
(Gain) loss on disposal of non-current asset		(7)	8
Adjustment for non-cash investing activities		(465)	(150)
Impairment of investment		-	168
Operating profit before working capital changes		**1,788**	**3,655**
(Increase) in accounts receivable and prepayments		(2,539)	(219)
Increase (decrease) in accounts payable and accrued charges		1,293	(71)
Decrease/(increase) in other current assets		26	(149)
(Decrease)/increase in taxes payable other than profits tax		(12)	96
Increase in non-current liabilities		43	3
(Increase) in inventories		(362)	(81)
Profits tax		(191)	(506)
Net cash provided by operating activities		**46**	**2,728**
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(1,518)	(1,658)
Proceeds from sale of property, plant and equipment		113	15
Net cash used in investing activities		**(1,405)**	**(1,643)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans		10,862	1,450
Repayment of loans		(8,199)	(2,154)
Interest paid (net)		(122)	(34)
Dividends paid		(947)	(375)
Net cash provided by/(used in) financing activities		**1,594**	**(1,113)**
Effect of inflation on cash and cash equivalents		**-**	**(55)**
Net increase/ (decrease) in cash and short term funds		**235**	**(83)**
Cash and short term funds at the beginning of the year		**363**	**446**
Cash and short term funds at the end of the year		**598**	**363**

The accompanying notes on pages 8 to 20 form an integral part of these financial statements.

NOTE 1 - PRINCIPAL ACTIVITIES OF JSC LENENERGO AND GROUP

Open Joint-Stock Company Lenenergo (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 was registered in the Russian Federation on 22 January 1993 in accordance with the Presidential Decree 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 percent ownership interest in the share capital of the newly formed joint-stock company and 49 percent ownership interest was retained by the Russian Open Joint Stock Company for Energy and Eelectrification 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 percent ownership by RAO UES represents 439,707,728 of the Company’s ordinary shares, giving RAO UES 57.4 percent of the voting shares. The Company and its subsidiaries are incorporated under the laws of the Russian Federation (the “state”).

At 31 December 2003 the number of employees of the Company was approximately 14,317 (31 December 2002 : approximately 17,300).

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

At 31 December 2003, 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 regulations by the Federal Energy Commission (“FEC”), with respect to its wholesale 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 International Financial Reporting Standards (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, Government 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.

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% of the electricity generated. Subsequently, all electricity generated is expected to be sold in a competitive, whole sale market.

NOTE 1 - PRINCIPAL ACTIVITIES OF JSC LENENERGO AND GROUP (continued)

As part of the restructuring process, amendments to Russian laws governing the electricity market are considered by legislative bodies of the Russian Federation. The Federal Law "On electricity industry" No 35-FZ was approved on 26 March 2003 by State Duma of Russian Federation. The Law establishes a regulatory framework for economic activities in the power sector; defines the authority of the government bodies to regulate such activities, the essential rights and obligations of the power industry companies as they conduct their principal activities (including those engaged in simultaneous heat and electricity generation) and consumers.

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 – ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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 the Russian Federation, restrictive currency controls and relatively high inflation.

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

NOTE 3 - BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with IFRS, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

JSC Lenenergo and its subsidiaries maintain their primary accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. These consolidated financial statements have been prepared from those accounting records with adjustments in order to ensure compliance with the accounting policies set out in note 4.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of 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 those estimates.

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Conventions

The consolidated financial statements of the Company have been prepared under applicable IFRS. Management of the Company believes that although hyperinflationary conditions existed in Russia during 2001, it was a matter of judgement whether or not these conditions existed in 2002. Further, management believes that the economy has proved not to be hyperinflationary during 2003. The Company has previously produced financial statements including the hyperinflationary adjustments required by IAS 29 and the financial statements for previous periods have been restated for the changes in the general purchasing power of Russian roubles. Consequently, the hyperinflationary adjustments envisaged by IAS 29 have been included in these financial statements for the comparative figures. Starting from 2003 the Russian economy ceased to be hyperinflationary and the Company discontinued the preparation and presentation of financial statements in accordance with IAS 29. The amounts expressed in Russian roubles at the end of 2002 are treated as the basis for the carrying amounts in its subsequent financial statements.

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments and adoption of International Accounting Standard 39

IAS 39, issued by the International Accounting Standards committee, has introduced a comprehensive framework for accounting for all financial instruments. Unless otherwise stated the financial instruments of the Company have been stated at their estimated fair values in accordance with IAS 39. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arms length transaction between willing parties at year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement. The specific valuation methodologies applied to these instruments are outlined below. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments. The effects of the remeasurement of certain of the assets has been recognised with effect from 1 January 2001.

(c) 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 ceased. All intercompany transactions, balances and unrealised surpluses and deficits on the 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 and included in available-for-sale investments. When there is diminution in value, other than temporary, a provision is recognised and charged as an expense to the statement of operations.

(d) Dividends

Dividends are accounted for in the year they are approved by shareholders.

(e) Investments

Investments are initially recorded at cost. They are subsequently remeasured to fair value based on market quotations or management's estimations of future realisability. Where it is not possible to arrive at a reasonable estimate of fair value, investments are stated at cost less provision for impairment. Movements in the value of investments are taken to the statement of income.

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 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 operations in the period in which they arise.

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 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$) at 31 December 2003 was RR 29.45 = US$ 1.00 (31 December 2002: RR 31.78 = US$ 1.00), between the Russian Rouble and Euro at 31 December 2003 was RR 36.82 = Euro 1.00 (31 December 2002:RR 33.11 = Euro 1.00). Exchange restrictions and controls exist in respect of the conversion of the Russian Rouble into other currencies.

(g) 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 and have a maturity of three months or less.

(h) Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added taxes (VAT) 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.

(i) Value added tax on purchases and sales

VAT 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. Where provision has been made against debtors deemed to be uncollectable a bad debt expense is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is settled or until the debtor is written off for statutory accounting purposes.

(j) Property, plant and equipment

Property, plant and equipment is stated at historical cost after restatement for the impact of inflation by applying relevant conversion factors from the date of acquisition. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 in the statement of operations.

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 or extend its life. 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 financial statements as they are not expected to result in future economic benefits to the Company. However, costs for social expenditures are expensed as incurred.

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:

Notes to Consolidated Financial Statements
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Type of facility	Years
Electricity and heat generation buildings	50
Electricity and heat generation machinery and equipment	25
Electricity distribution	25
Heating networks	20
Other	10

(k) Inventories

Inventories are valued at the lower of net realisable value and weighted average cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

(l) Taxation

Deferred profit tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred profit 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 profit 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 profit 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.

(m) Accounts payable and accrued charges

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

(n) Environmental liabilities.

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

(o) 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. The Company's revenue earned outside Russia is not material.

(p) Pensions 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.

(q) 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 the authorised tariffs for electricity and heat sales as approved by the REC.

(r) Earnings/loss per share

Preference shares are considered to be participating shares as their dividend may not be less 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 outstanding during the reporting year, excluding the average number of treasury shares held by the Company. Preference shares participate in losses.

Notes to Consolidated Financial Statements
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

NOTE 5 – SUBSIDIARIES

The only subsidiary enterprise material for the Company's operations during the years ended 31 December 2003 and 2002 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 2003 and 31 December 2002. Net assets of Petroelectrosbyt as at 31 December 2003 amount to RR 30 million (31 December 2002:RR 24 million), the amount of minority interest is immaterial.

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 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 36 million (2002: RR 208 million) is included in financing items in respect of the amortization of the gain recognised at the inception of the loan. This loan was transferred to RAO UES in 2002.

Fortum Power and Heat Oy (Fortum). Fortum owns 6% of the Company's share capital and a representative of that company is a member of the Company's Board of Directors. All the Company's export sales in 2003 and 2002 were made to Fortum .

North-West Power Station (NWS). The Company owns 13.8% of the share capital NWS, which is also controlled by RAO UES. In 2003 and 2002 the Company made purchases of electricity from NWS through FOREM at the tariffs approved by the FEC.

Leningradsky Metal Plant (LMZ). The Company owns 10.35% of the shares of LMZ and is a member of the LMZ's Board of Directors. The Company supplies to LMZ electricity at the tariffs approved by the St Petersburg REC.

JSC Kirishskaya GRES. GRES is 100% owned by RAO UES. The Company made purchases of electricity from GRES through FOREM at the tariffs approved by the FEC.

JSC Petroenergobank. The Company owns 21.6% of share capital of the Bank. The Company has a current account with the Bank amounting to 236 million RR and 64 million RR as at 31 December 2003 and 31 December 2002 respectively.

LEIVO. The Company owns 50% of the share capital of LEIVO. LEIVO supplied insignificant volumes of telecommunication services to the Company in 2003 and 2002.

JSC Energoinvest. The Company owns 100% of the share capital of ZAO Energoinvest. Energoinvest provided the Company with legal services during the year. Also, the Company granted a loan in 2002, partially repaid in 2003.

LLC Lenenergozatzita. The Company owns indirectly 90% of the share capital of Lenenergozatzita which provides security services for the Company. During 2003 the Company granted an interest-free loan which was repaid in 2004.

JSC General Energy Company. The Company owns indirectly 51% of the share capital of JSC General Energy Company. During the year the Company purchased equipment and repairing works from the Energy Company.

JSC Energovybor. The Company owns indirectly 85% of the share capital of Energovybor. Energovybor provides agent services on wholesale and retail markets of electricity.

Notes to Consolidated Financial Statements
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

NOTE 6 – RELATED PARTIES (continued)

Directors' remuneration. Total remuneration paid to members of the Board of Directors, solely in respect of their duties as the members of that body, was RR 7.7 million and 2.7 million for the years ended 31 December 2003 and 31 December 2002 respectively.

In 2002 the General Director of the Company received an interest-free loan of RR 3.18 million from Petroelectrosbyt, repayable in instalments over seven years.

	Volume of transactions		Receivable/(payable) as at	
	2003	2002	31 December 2003	31 December 2002
RAO UES				
Subscription fee	2,013	1,717	-	-
System safety services	51	9	-	
CARES loan repaid	500	500	(500)	(1,111)
Fortum				
Supply of electricity	(219)	(181)	2	30
NWS				
Purchases of electricity	266	363	(1)	(11)
Energoinvest				
Legal services	3	-	(1)	(1)
Interest free loan	(3)	(50)	47	50
Lenenergozatsita				
Security services	126	-	(146)	(8)
Interest-free loan	(2)	-	5	7
General Energy Company				
Purchase of equipment	544	-	-	-
Repairing works	108	-	-	-
JSC Energovybor				
Agent services	92	-	(15)	(8)
LMZ				
Supply of electricity and heat	(1)	(150)	-	21
Kirishskaya GRES				
Purchases of electricity	1,250	-	51	-

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Electricity and Heat Generation	Electricity distribution	Heating networks	Construction in Progress	Other	Total
Cost or valuation						
Balance at 31 December 2002	20,243	17,195	17,301	5,810	7,211	67,760
Additions	199	147	20	1,485	358	2,155
Transfers	112	424	314	(930)	80	-
Disposals	(44)	(41)	(3)	-	(121)	(209)
Balance at 31 December 2003	20,510	17,725	17,631	6,357	7,528	69,706

Notes to Consolidated Financial Statements
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated depreciation						
Balance at 31 December 2002	(4,918)	(8,654)	(5,630)	-	(3,582)	(22,784)
Charge for the year	(739)	(499)	(794)	-	(929)	(2,960)
Disposals	22	20	1	-	61	104
Balance at 31 December 2003	(5,635)	(9,133)	(6,423)	-	(4,450)	(25,640)
Net book value at 31 December 2003	**14,875**	**8,592**	**11,209**	**6,365**	**3,078**	**44,120**
Net book value at 31 December 2002	**15,325**	**8,541**	**11,671**	**5,810**	**3,629**	**44,976**

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 property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

As at 31 December 2003 fixed assets amounting to RR 515 million were pledged as collateral with respect to an overdraft facility with Promstroibank.

As at 31 December 2003 the Company's fixed assets were insured for a total of RR 43 million with JSC Rus.

NOTE 8 – INVESTMENTS

Investments of the Company consist of the following:

	2003	**2002**
North-West Power Station (NWS)	269	269
Leningrad Metal Plant (LMZ)	84	169
Other	53	53
Total	**406**	**491**

The investment in NWS is stated net of an impairment provision of RR 835 million (2002: RR 835 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 decrease in the fair value during the year ended 31 December 2003 of RR 85 million has been debited to the fair value reserve (2002: the increase of RR 54 million was credited to the fair value reserve).

NOTE 9 – ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2003	**2002**

(in million Russian Roubles)

Trade receivables	3,828	2,806
Value added tax recoverable	847	527
Other receivables	95	502
Prepayments and accrued income	1,288	436
Total	**6,058**	**4,271**

NOTE 9 – ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Trade receivables are stated net of allowance for doubtful debtors of RR 659 million as at 31 December 2003 and RR 503 million as at 31 December 2002. Other receivables are stated net of allowance for doubtful debtors of RR 401 million as at 31 December 2003 and RR 23 million as at 31 December 2002. Bad debts amounting to RR 101 million were written off during 2003. Management has determined the allowances for doubtful debtors based on specific customer identification, subsequent receipts and settlements and analyses of expected future cash flows. 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 to their fair value.

NOTE 10 - INVENTORIES

	2003	2002
Fuel production stocks	586	326
Materials and supplies	790	657
Other inventories	27	58
Total	**1,403**	**1,041**

NOTE 11 – SHORT-TERM LOANS

	2003	2002
Short-term bank loans	3,239	163
RAO UES - current portion of long-term loans (see Note 6)	500	483
Current portion of other long-term loans	5	-
Total	**3,744**	**646**

The short term bank loans are borrowed from different Russian banks at interest rates of 7-11.25%. The loans are denominated in Russian Roubles and are not secured.

The RAO UES loan has been recorded net of discounts, calculated at the rate of 12% (2002: 16-18%). The effects of discounting are included in financing items.

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2003	2002
Trade payables	1,424	1,168
Advances received	1,974	1,400
Accrued liabilities and other creditors	658	326
Total	**4,056**	**2,894**

NOTE 13 – TAX PAYABLES

	2003	2002
Value added tax	645	455

(in million Russian Roubles)

Profits tax	-	191
Property tax	78	56
Other taxes	89	122
Total	**812**	**824**

All tax payables are current.

NOTE 14 – SHAREHOLDERS' EQUITY

Share Capital	Number of shares issued and fully paid	2003	2002
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 766,035,008 and 131,328,000 respectively, both with a nominal value per share of 1 Russian rouble. All authorised shares are issued and fully paid.

Preference shares carry no voting rights except when dividends on preference shares have not been paid. Preference shares are not convertible into ordinary shares and are entitled to a minimum annual dividend of 10% of net statutory profit. In total the preference dividend may not be less than the ordinary dividend. 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.

The 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 profit. For 2003, the statutory profit for the Company as reported in the published annual statutory reporting form was RR 219 million (2002: RR 1,280 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 distribution reserves in these financial statements.

Dividends were declared in 2003 in respect of 2002 of RR 1.055 per ordinary share and RR 1.055 per preference share. The dividends unpaid as at 31 December 2003 amounts to RR 318 million.

As at 31 December 2003 and 2002, one of the Company's subsidiaries, Petroelectrosbyt, held 0.006 percent of the Company's share capital. Any adjustment to equity in respect of these treasury shares would be immaterial.

NOTE 15 – NON-CURRENT DEBT

	2003	2002
Long term loan from RAO UES (see Note 11)	500	865
Other long-term loans and liabilities	81	44
Less: current portion	(505)	(483)
Total	**76**	**426**

NOTE 16 – TAXATION

Profit tax is calculated at a rate of 24% (2002 – 24 %), based on profit as computed under Russian accounting regulations and adjusted for fiscal purposes.

(in million Russian Roubles)

	2003	2002
Profit tax charge for the year	-	123
Deferred tax (credit)/charge	(491)	4,307
Total	**(491)**	**4,430**

NOTE 16 – TAXATION (continued)

The Company's accounting profit can be reconciled to taxable profit as follows:

	2003	2002
Accounting (Loss)/ Profit before Taxation	(1,452)	420
Adjustments to comply with IFRS	1,889	(1,166)
Accounting profit in accordance with Russian Standards	437	1,586
Adjustment for allowable deductions /disallowable items	(481)	(103)
Adjustment for temporary differences in accordance with Russian Standards	(263)	(970)
Russian Taxable (Loss) /Profit	(307)	513
Profit tax at 24% (2002 - 24%)	-	123

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 24%, the anticipated rate applicable when the assets or liabilities will reverse.

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the period:

	31 December 2002	Movements for the year	31 December 2003
Fixed assets	(4,576)	485	(4,090)
Other assets	25	(1)	24
Liabilities	(87)	7	(80)
	(4,638)	491	(4,146)
Investments		20	20
Total	**(4,638)**	**511**	**(4,126)**

NOTE 17 – MONETARY EFFECTS AND FINANCING ITEMS

	2003	2002
Monetary (loss) gain	-	(19)
Gain on discounting of debt	55	-
Interest expense on discounted debt	(48)	(208)
Gain on settlement of receivables previously discounted	-	87

Bank interest expense and charges	(134)	(34)
Foreign exchange gain	10	17
Net (loss)/gain	**(117)**	**(157)**

Notes to Consolidated Financial Statements
for the years ended 31 December 2003 and 2002
(in million Russian Roubles)

NOTE 18 – LOSS PER SHARE

	2003	2002
Weighted average number of preference and ordinary shares outstanding (thousands) – net of treasury shares	897,317	897,317
Net loss	(961)	(4,010)
Loss per ordinary and preference share – basic and diluted	**(1.07)**	**(4.47)**

NOTE 19 – CONTINGENCIES AND COMMITMENTS

Fuel commitments

The Company has numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirements of the Company. Additional fuel requirements for 2004 in excess of amounts contracted will be purchased through short-term agreements and on spot basis from variety of suppliers. Prices under the Company's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices.

Capital commitments

Future capital expenditures for which contracts have been signed amount to RR 3,040 million at 31 December 2003 (RR 2,296 million at 31 December 2002).

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.

Pension schemes

The Company contributes to the Russian Federation state pension scheme, social insurance and unemployment funds in respect of its staff. The Company's pension scheme contribution amounts to 28% (2002 – 28%) of employees' salaries, and is expensed as incurred.

In addition the Company contributes to a defined contribution non-statutory pension scheme on behalf its the employees. During 2003 the Company didn't make any contributions to the fund.

Political environment

The operations and earnings of the Company 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.

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 occur frequently. Furthermore, the interpretations 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.

NOTE 20 – 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 interest rates and the collectibility of receivables. The Company does not have a risk policy in order 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.

Interest rate risk. Interest rates on the outstanding debt are fixed. The Company has no significant interest-bearing assets.

Currency risk. The Company has no significant exposure to currency risk.

NOTE 21 – POST BALANCE SHEET EVENTS

In 2003 the Board of Directors of the Company made a decision to issue 3,000,000 non-convertible bonds at nominal value amounting to RR 1,000 per bond in 2004. Maturity period is 1092 days from date of issue. Coupon expense will be paid 6 times (twice per year). The interest rate will be set later.

The Company signed an agreement with the EBRD on 19 June 2003 to borrow Euro 40 million. The loan is to be borrowed in instalments starting from 2004 at 4.25 % and will mature on 20 June 2010. Borrowing costs will also include an annual payment of Euros 20,000, a commitment fee of 0.5% from unborrowed amount and a 1% one-time commission from the total loan amount.

The Board of Directors proposed for the approval at the Annual General Meeting of the shareholders of the Company to be held on 27 May 2004 dividends of RR 0.13657 per ordinary share and 0.167 per preference share in respect of 2003 amounting to a total of RR 126 million.