JSC LENENERGO

INDEPENDENT AUDITORS' REPORT
&
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

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:

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of JSC Lenenergo at 31 December 2004 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 balance sheet 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 2004 the result of its operations for the year then ended.

Moore Stephens CIS

6 May 2005

Moore Stephens CIS

Entrance 1,
Strastnoy Boulevard 16,
Moscow, 107031

JSC Lenenergo
Consolidated Balance Sheet
As at 31 December 2004 and 2003
(in million Russian Roubles)

	Notes	2004	2003
Assets			
Non-current assets			
Property, plant and equipment	**7**	44,775	44,120
Investments	**8**	545	406
Other non-current assets		1	5
Total non-current assets		**45,321**	**44,531**
Current assets			
Cash and cash equivalents		1,220	598
Accounts receivable and prepayments	**9**	8,243	6,058
Inventories	**10**	1,477	1,403
Other current assets		115	153
Total current assets		**11,055**	**8,212**
Less: Current liabilities			
Short-term loans	**11**	1,697	3,744
Accounts payable and accrued charges	**12**	5,848	4,056
Taxes payable	**13**	884	812
Total current liabilities		**8,429**	**8,612**
Net current assets/(liabilities)		**2,626**	**(400)**
		47,947	**44,131**
Financed by:			
Shareholders' equity			
Share capital	**14**	6,010	6,010
Fair value reserve		85	(24)
Retained earnings		33,387	33,943
Total shareholders' equity		**39,482**	**39,929**
Non-current liabilities			
Deferred tax liability	**16**	4,059	4,126
Non-current debt and other non-current liabilities	**15**	4,406	76
Total non-current liabilities		**8,465**	**4,202**
		47,947	**44,131**

Approved on behalf of the Board of Management on

Likhachev A.N.
General Director

Kirin D. N.
First Deputy General Director

The accompanying notes on pages 8 to 22 form an integral part of these financial statements.

Consolidated Statement of Operations
for the years ended 31 December 2004 and 2003
(in million Russian Roubles)

	Notes	2004	2003
Revenues			
Electricity		21,806	19,089
Heating		6,959	6,456
Other		2,716	1,251
Total revenues		**31,481**	**26,796**
Costs and other deductions			
Fuel expenses		(5,407)	(4,745)
Purchased power		(9,444)	(8,984)
Depreciation		(3,297)	(2,960)
Wages and payroll taxes		(2,598)	(2,109)
Transmission fees		(3,726)	(2,937)
Repairs and maintenance		(1,943)	(1,868)
Other expenses		(2,052)	(1,759)
Water costs		(1,033)	(1,071)
Taxes other than on income		(812)	(539)
Other materials		(116)	(230)
Doubtful debtors expense		(49)	(635)
Social expenditures		(323)	(242)
Impairment		(177)	-
Rental fees		(136)	(59)
(Loss)/Gain on disposal of non-current assets		(278)	7
Total costs and other deductions		**(31,391)**	**(28,131)**
Profit/(Loss) from operations		**90**	**(1,335)**
Monetary effects and financing items	**17**	(578)	(117)
Loss on ordinary activities before taxation		**(488)**	**(1,452)**
Taxation	**16**	**59**	**491**
Net Loss		**(429)**	**(961)**
Loss per share - basic and diluted - in Russian Roubles			
Ordinary	**18**	(0.48)	(1.07)
Preference	**18**	(0.48)	(1.07)

The accompanying notes on pages 8 to 22 form an integral part of these financial statements.

JSC Lenenergo
Consolidated Statement of Changes in Shareholders' Equity
For the years ended 31 December 2004 and 2003
(in million Russian Roubles)

	Ordinary share capital	Preference share capital	Fair value reserve	Retained earnings	Total Shareholders' equity
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**
Restatement of prior period	(7)	-	-	7	-
Restated balance at 31 December 2003	**5,129**	**881**	**(24)**	**33,943**	**39,929**
Net loss	-	-	-	(429)	(429)
Dividends	-	-	-	(127)	(127)
Revaluation of investments to current market value	-	-	143	-	143
Deferred tax effect of revaluation	-	-	(34)	-	(34)
Balance at 31 December 2004	**5,129**	**881**	**85**	**33,412**	**39,507**

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 22 form an integral part of these financial statements.

JSC Lenenergo
Consolidated Statement of Cash Flows
for the year ended 31 December 2004 and 2003
(in million Russian Roubles)

	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Loss on ordinary activities before taxation	**(488)**	**(1,452)**
Adjustments to reconcile profit/loss on ordinary activities before taxation to net cash provided by operations:		
Depreciation	3,297	2,960
Doubtful debtors expense	49	635
Interest expense (net)	515	134
Loss/(Gain) on disposal of non-current asset	278	(7)
Adjustment for non-cash investing activities	-	(482)
Recovery of overpaid taxes	(627)	-
Foreign exchange loss/(income)	32	(10)
Impairment	177	-
Operating profit before working capital changes	**3,233**	**1,778**
Increase in accounts receivable and prepayments	(1,607)	(2,539)
Increase in accounts payable and accrued charges	1,792	1,293
Decrease in other current assets	-	26
Increase/(Decrease) in taxes payable other than profits tax	72	(12)
Increase in non-current liabilities	-	43
Increase in inventories	(74)	(362)
Profits tax	(42)	(191)
Net cash provided by operating activities	**3,374**	**36**
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(4,410)	(1,518)
Proceeds from sale of property, plant and equipment	11	113
Net cash used in investing activities	**(4,399)**	**(1,405)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from loans	6,127	10,862
Repayment of loans	(3,806)	(8,199)
Interest paid (net)	(515)	(122)
Dividends paid	(127)	(947)
Net cash provided by/(used in) financing activities	**1,679**	**1,594**
Foreign exchange (loss)/income	**(32)**	**10**
Net increase in cash and short term funds	**622**	**235**
Cash and short term funds at the beginning of the year	**598**	**363**
Cash and short term funds at the end of the year	**1,220**	**598**

The accompanying notes on pages 8 to 22 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 2004 the number of employees of the Company was approximately 12,514 (31 December 2003 : approximately 14,317).

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

At 31 December 2004, 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.

For more details on the progress of restructuring see note 21 on post balance sheet events.

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 its 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.

Share capital of the Company was restated in order to bring it in order to bring it in line with the Company's charter.

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 and 2004. 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 discontinues 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$) at 31 December 2004 was RR 27.75 = US$ 1.00 (31 December 2003: RR 29.45 = US$ 1.00), between the Russian Rouble and Euro at 31 December 2004 was RR 37.81 = Euro 1.00 (31 December 2003:RR 36.82 = 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 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 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:

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.

NOTE 5 – SUBSIDIARIES

The only subsidiary enterprise material for the Company's operations during the years ended 31 December 2004 and 2003 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 2004 and 31 December 2003. Net assets of Petroelectrosbyt as at 31 December 2004 amount to RR 34 million (31 December 2003:RR 30 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.
Inter RAO UES is a member of RAO UES group. The company purchased electricity from Inter RAO UES through FOREM at the tariffs approved by the FEC.

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. This loan was transferred to RAO UES in 2002 and repaid in 2004.

Fortum Power and Heat Oy (Fortum). Fortum owns 30.7% 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 2004 and 2003 were made to Fortum.

JSC CDO-UES is 100% owned by RAO UES. The company pays transmission fees at the tariffs approved by the FEC and rents out property to JSC CDO-UES at rates determined independently.

Federal Grid Company. Federal Grid Company, a 100% subsidiary of RAO UES, charges the company a subscription fee at the tariffs approved by the FEC for the use of its electricity grids.

North-West Power Station (NWS). The Company owns 13.8% of the share capital NWS, which is also controlled by RAO UES. In 2004 and 2003 the Company made purchases of electricity from NWS through FOREM at the tariffs approved by the FEC.

JSC Pskovskaya 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 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 Orenburgenergo is owned by RAO UES. The Company made purchases of electricity from Orenburgenergo 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 current account with the Bank amounting to 244 million RR and 236 million RR as at 31 December 2004 and 31 December 2003 respectively.

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 2004 and 2003.

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 and 2004.

(in million Russian Roubles)

NOTE 6 – RELATED PARTIES (continued)

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

ZAO Center of Asset Management. The Company owns indirectly 94.5% of the share capital of ZAO Center of Asset Management. During the year the company used the Center as a renting agent.

JSC "SKA St. Petersburg. The Company owns indirectly 51% of the share capital of this Hockey Club. During 2004 the Club received donations from the company.

ZAO Baltenergocomplect. The Company owns indirectly 96% of the share capital of ZAO Baltenergocomplect. During the year the company paid agency fees to ZAO for arranging supplies of materials.

LLC Lenenergozashyta. The company owns indirectly 29% of the share capital of Lenenergozashyta which provides security services for the company. During 2003 the company granted an interest free loan which was repaid in 2004.

JSC Lider is owned by RAO UES. The company's assets were insured by JSC Lider for 40,384mln RR.

Directors' remuneration. Total remuneration paid to members of the Board of Directors was RR 15.5 million and RR 7.7 million for the years ended 31 December 2004 and 31 December 2003 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	
	2004	**2003**	**31 December 2004**	**31 December 2003**
RAO UES				
Subscription fee	1,103	2,013	-	-
System safety services	-	51	-	-
CARES loan repaid	-	500	-	(500)
Inter RAO UES				
Purchases of electricity	256	8	(27)	-
Fortum				
Supply of electricity	(231)	(219)	32	2
JSC CDO-UES				
Transmission fees	216	60	-	-
Rental fees	(14)	-	-	-
Federal Grid Company				
Subscription fees	937	362	1	3
NWS				
Purchases of electricity	35	266	-	(1)
JSC Pskovskaya GRES				
Purchases of electricity	3	6	-	-
JSC Kirishskaya GRES				
Purchases of electricity	724	606	20	51
JSC Orenburgenergo				
Purchases of electricity	20	6	-	-
Energoinvest				
Legal services	2	3	-	(1)
Debt collection fees	2	-	17	-
Interest free loan	(2)	(3)	45	47

(in million Russian Roubles)

NOTE 6 – RELATED PARTIES (continued)

	Volume of transactions		Receivable/(payable) as at	
	2004	**2003**	**31 December 2004**	**31 December 2003**
Lenenergozatsita				
Security services	134	126	(13)	(146)
Interest-free loan	(4)	(2)	1	5
General Energy Company				
Repairing works and Purchase of equipment	857	652	(67)	-
ZAO Center of Asset Management				
Agent's fees	4	-	-	-
JSC Petroenergobank				
Bank balances	-	-	244	236
Promissory notes	118		8	-
ZAO Baltenergocomplect				
Agent's fees	12	-	-	-
JSC Lider				
Insurance	60	-	-	-
JSC "SKA St. Petersburg				
Donations	160	-	-	-

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 2003	20,510	17,726	17,631	6,365	7,528	69,760
Additions	56	16	-	3,741	597	4,410
Transfers	247	846	638	(2,248)	517	-
Disposals	(250)	(43)	(3)	(31)	(78)	(405)
Balance at 31 December 2004	20,563	18,545	18,266	7,827	8,564	73,765
Accumulated depreciation						
Balance at 31 December 2003	(5,635)	(9,132)	(6,423)	-	(4,450)	(25,640)
Charge for the year	(757)	(554)	(841)	-	(1,145)	(3,297)
Impairment charge	-	-	-	(159)	(18)	(177)
Disposals	61	16	1	-	46	124
Balance at 31 December 2004	(6,331)	(9,670)	(7,263)	(159)	(5,567)	(28,990)
Net book value at 31 December 2004	**14,232**	**8,875**	**11,003**	**7,668**	**2,997**	**44,775**
Net book value at 31 December 2003	**14,875**	**8,594**	**11,208**	**6,365**	**3,078**	**44,120**

(in million Russian Roubles)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued)

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 2004 fixed assets with approximate net book value of RR 856 million were pledged as collateral in respect of EBRD loan.

As at 31 December 2004 the Company's fixed assets were insured for a total of RR 40,384 million with JSC Lider.

NOTE 8 – INVESTMENTS

Investments of the Company consist of the following:

	2004	**2003**
North-West Power Station (NWS)	269	269
JSC Power Machines (formerly Leningrad Metal Plant)	227	84
Other	49	53
Total	**545**	**406**

The investment in NWS is stated net of an impairment provision of RR 835 million (2003: RR 835 million), assessed by management on the basis of its recoverable value.

The investment in JSC Power Machines is stated at its fair value determined by management on the basis of available market information for JSC Power Machines shares. The increase in the fair value during the year ended 31 December 2004 of RR 143 million has been credited to the fair value reserve (2003: the decrease of RR 85 million was debited to the fair value reserve).

NOTE 9 – ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2004	**2003**
Trade receivables	3,890	3,828
Value added tax recoverable	1,346	847
Profit tax recoverable	380	-
Other receivables	1,135	95
Prepayments and accrued income	1,492	1,288
Total	**8,243**	**6,058**

Trade receivables are stated net of allowance for doubtful debtors of RR 1,072 million as at 31 December 2004 and RR 1,060 million as at 31 December 2003. Bad debts amounting to RR 36 million were written off during 2004. 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.

(in million Russian Roubles)

NOTE 10 – INVENTORIES

	2004	2003
Fuel production stocks	602	586
Materials and supplies	836	790
Other inventories	39	27
Total	**1,477**	**1,403**

NOTE 11 – SHORT-TERM LOANS

	2004	2003
Short-term bank loans	1,540	3,239
RAO UES – current portion of long-term loans (see Note 6)	-	500
Current portion of other long-term loans	157	5
Total	**1,697**	**3,744**

The short term bank loans are borrowed from different Russian banks at interest rates of 7.75%-10.75%. The loans are denominated in Russian Roubles and are not secured.

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2004	2003
Trade payables	2,390	1,424
Advances received	2,944	1,974
Accrued liabilities and other creditors	514	658
Total	**5,848**	**4,056**

NOTE 13 – TAXES PAYABLE

	2004	2003
Value added tax	773	645
Property tax	-	78
Other taxes	111	89
Total	**884**	**812**

All tax payables are current.

NOTE 14 – SHAREHOLDERS' EQUITY

Share Capital	**Number of shares issued and fully paid**	**2004**	**2003**
Ordinary shares	766,035,008	5,129	5,129
Preference shares	131,328,000	881	881
Total	**897,363,008**	**6,010**	**6,010**

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.

(in million Russian Roubles)

NOTE 14 – SHAREHOLDERS' EQUITY (continued)

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 2004, the statutory profit for the Company as reported in the published annual statutory reporting form was RR 865 million (2003: RR 219 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 2004 in respect of 2003 of RR 0.13657 per ordinary share and RR 0.1670 per preference share. The dividends unpaid as at 31 December 2004 amounts to RR 299 million.

As at 31 December 2003, one of the Company's subsidiaries, Petroelectrosbyt, held 0.006 percent of the Company's share capital. No adjustment to equity in respect of these treasury shares were made as it would have been immaterial. These shares were disposed of during 2004.

NOTE 15 – NON-CURRENT DEBT AND OTHER NON-CURRENT LIABILITIES

	2004	2003
Long term loan from RAO UES (see Note 11)	-	500
Non – convertible bonds	3,000	-
EBRD loan	1,512	-
Other long-term loans and liabilities	51	81
Less: current portion	(157)	(505)
Total	**4,406**	**76**

Non-convertible bonds issue in the year are Rouble denominated and bear interest of 10.25% per annum. Bonds become repayable in April 2007.

EBRD loan provided to the Company is Euro denominated (Euro 40 million) and bears an interest rate of the Euro interbank rate plus a margin of 4.25% per annum. The loan is repayable in 10 equal 6-monthly instalments starting on 20 December 2005. The full amount of Euro 40 million (RR 1,512 million) was outstanding as at 31 December 2004.

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.

	2004	2003
Profit tax charge for the year	42	-
Deferred tax credit	(101)	(491)
Total	**(59)**	**(491)**

(in million Russian Roubles)

NOTE 16 – TAXATION (continued)

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

	2004	**2003**
Accounting Loss before Taxation	(488)	(1,452)
Adjustments to comply with IFRS	1,527	1,889
Accounting profit in accordance with Russian Standards	1,039	437
Adjustment for allowable deductions /disallowable items	686	(481)
Adjustment for temporary difference in accordance with Russian Standards	(1,550)	(263)
Russian Taxable Profit/(Loss)	175	(307)
Profit tax at 24% (2003 - 24%)	42	-

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 2003	**Movements for the year**	**31 December 2004**
Fixed assets	(4,090)	303	(3,787)
Other assets	24	(160)	(136)
Liabilities	(80)	(42)	(122)
	(4,146)	101	(4,045)
Investments	20	(34)	(14)
Total	**(4,126)**	**67**	**(4,059)**

NOTE 17 – MONETARY EFFECTS AND FINANCING ITEMS

	2004	**2003**
(Loss)/Gain on discounting of loans received	(29)	55
Interest expense on discounted receivables	(3)	(48)
Gain on settlement of receivables previously discounted	1	-
Interest on non-convertible bonds	(237)	-
Bank interest expense and charges	(278)	(134)
Foreign exchange gain/(loss)	(32)	10
Net loss	**(578)**	**(117)**

NOTE 18 – LOSS PER SHARE

	2004	2003
Weighted average number of preference and ordinary shares outstanding (thousands) – net of treasury shares	897,317	897,317
Net loss	(429)	(961)
Loss per ordinary and preference share – basic and diluted	**(0.48)**	**(1.07)**

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 325 million at December 31, 2004 (RR 3,040 million at December 31, 2003).

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% (2003 – 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 2004 the Company haven't made 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.

(in million Russian Roubles)

NOTE 19 – CONTINGENCIES AND COMMITMENTS (continued)

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

The power sector and the Company are currently in the process of restructuring. On 21 May 2004 a draft plan for the restructuring of JSC "Lenenergo" was agreed by the board of directors of RAO UES, the parent company of JSC "Lenenergo". According to the plan JSC "Lenenergo" is to be divided into four new joint stock companies by the end of 2005. These will be a generating company, a management company, a sales company and a network company.

Shares in these new companies will be distributed among the shareholders of JSC "Lenenergo" in proportion to their current holdings as follows: for one ordinary Lenenergo share one ordinary share in each of the four new companies; for one preference Lenenergo share one preference share in each of the four new companies.

Nominal values of the new ordinary shares are:	Generating company	– 10.00 RR,
	Management company	– 0.30 RR,
	Sales company	– 0.20 RR,
	Network company	– 1.00 RR.
Nominal values of the new preference shares are:		
	Generating company	– 10.00 RR,
	Management company	– 0.30 RR,
	Sales company	– 0.20 RR,
	Network company	– 1.00 RR.

The assets and liabilities of JSC "Lenenergo" assets and liabilities will be shared out between the four companies according to a "divided" balance sheet, which was prepared as at 30 June 2004 and confirmed by a RAO UES working group.

NOTE 21 – POST BALANCE SHEET EVENTS (continued)

The restructuring plan is to be confirmed at the general shareholders meeting. No later than 30 days after that the creditors of the Company are to be notified. The creditors of the Company have 30 days from the date they are notified to demand early settlement of the Company's liabilities.

Shareholders voting against the restructuring plan are entitled to have their shares bought back by the Company according to the laws of the Russian Federation. The market value of one ordinary share of the Company as at 1 July 2004, as a part of a non-controlling holding, was ascertained to be 30.00 RR. The value of one preference share as at 1 July 2004 was ascertained to be 14 RR. This valuation was carried out by the "Institute of Enterprise Problems".

Following the vote on the restructuring, the workforce of the Company will be notified of the decision. The Company estimates potential redundancy payments to be in the region of 77.2mln RR.

At the General Shareholders Meeting, which took place on 8 April 2005, 92% of the shareholders voted for the restructuring. At the time of the preparation of these accounts it is not possible to assess with reasonable certainty the costs involved. Accordingly, no provision has been recognised in the accounts for the effects of the restructuring. In 2004 the Company incurred 6.3mln RR worth of costs related to consulting and valuation services and included in the appropriate headings in the financial statements.