RAO UES GROUP
IAS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2001

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AUDITOR'S REPORT

To the Shareholders and Board of Directors of the Russian Joint Stock Company Unified Energy System of Russia ("RAO UES")

1. We have audited the accompanying consolidated interim balance sheet of RAO UES and its subsidiaries (the "Group") as at 30 June 2001, the related consolidated interim statements of operations for the three and six months then ended, and the related consolidated interim statements of cash flows and of changes in shareholders' equity for the six months then ended. These consolidated interim financial statements, set out on pages 1 through 31, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit.

2. 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 consolidated interim financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated interim financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Group has prepared for the first time consolidated interim financial statements in accordance with International Accounting Standards ("IAS") for the three months ended 30 June. Accordingly the accompanying consolidated interim financial statements do not include comparative amounts for the consolidated interim statement of operations for the three months ended 30 June 2000, as required by International Accounting Standards.

4. In our opinion, except for the omission of comparative information as described in paragraph 3, the accompanying consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2001, and the results of its operations for the three and six months then ended, and its cash flows for the six months then ended, in accordance with International Accounting Standards.

5. Without further qualifying our opinion, we draw attention to Note 2. The financial statements have been prepared in accordance with accounting policies based on the Group being a going concern. As at 30 June 2001 the Group's current liabilities exceeded its current assets by RR 56,318 million (31 December 2000: RR 80,265 million). Furthermore, as disclosed in Note 2, the Group continues to experience difficulties in settling its tax liabilities, paying its creditors and in meeting debts as they fall due. These factors in addition to the limitations on tariff increases, difficulties in collecting receivables from prior years and economic difficulties in the Russion Federation indicate the existence of a material uncertainty which may raise substantial doubt about the ability of the Group to continue as a going concern. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

PricewaterhouseCoopers

Moscow, Russian Federation
19 October 2001

RAO UES Group

Consolidated Interim Balance Sheet as at 30 June 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001)

	Notes	30 June 2001	31 December 2000
Assets			
Non-current assets			
Property, plant and equipment	8	725,054	736,648
Investments in associates	9	4,329	4,248
Other investments	3	8,190	12,764
Other non-current assets	25	8,824	9,114
Total non-current assets		**746,397**	**762,774**
Current assets			
Cash and cash equivalents	10	6,262	8,578
Accounts receivable and prepayments	11	106,187	112,850
Inventories	12	37,908	38,856
Other current assets		4,824	7,422
Total current assets		**155,181**	**167,706**
Total assets		**901,578**	**930,480**
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		121,617	121,617
Preference shares (nominal value RR 1,038 million)		6,324	6,324
Treasury shares		(630)	(629)
		127,311	127,312
Retained earnings and other reserves		273,856	276,165
Total shareholders' equity		**401,167**	**403,477**
Minority interests	14	169,617	168,969
Non-current liabilities			
Deferred profits tax liabilities	15	98,733	90,861
Non-current debt	3,16	13,357	13,916
Other non-current liabilities		7,205	5,286
Total non-current liabilities		**119,295**	**110,063**
Current liabilities			
Current debt and current portion of non-current debt	17	14,120	13,323
Accounts payable and accrued charges	3,18	106,127	129,348
Taxes payable	19	91,252	105,300
Total current liabilities		**211,499**	**247,971**
Total shareholders' equity and liabilities		**901,578**	**930,480**

First Deputy Chairman of the Management Board — Melamed L.B.

Finance Director — Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Statement of Operations for the three and six months ended 30 June 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001 except as disclosed)

	Notes	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
Revenues				
Electricity		63,433	137,778	114,718
Heating		10,056	38,391	33,073
Transmission fees		225	449	1,086
Governmental assistance	20	660	1,457	1,201
Other		5,744	11,100	13,648
Total revenues		**80,118**	**189,175**	**163,726**
Costs and other deductions				
Fuel expenses		20,536	55,933	48,259
Depreciation and amortisation	8	12,467	24,921	24,097
Wages and payroll taxes		14,403	28,068	24,706
Taxes other than income		5,097	12,834	17,690
Purchased power		9,541	19,646	15,738
Repairs and maintenance		6,576	12,202	10,950
Other materials		4,140	7,655	11,338
Gain on disposal of fixed assets and investments		(169)	(110)	(136)
Social expenditures		1,115	2,168	2,370
Other expenses, net		9,451	18,254	8,793
Doubtful debtors (release) / expense		(527)	(1,433)	309
Total costs and other deductions		**82,630**	**180,138**	**164,114**
(Loss) / income from operations		**(2,512)**	**9,037**	**(388)**
Share of income of associates	9	198	400	40
(Loss) / income before monetary effects and taxation		**(2,314)**	**9,437**	**(348)**
Monetary effects and financing items	21	4,617	10,545	9,882
Income before taxation		**2,303**	**19,982**	**9,534**
Current profits tax charge		(3,338)	(10,843)	(6,375)
Deferred profits tax (charge) / benefit	15	(2,517)	(6,949)	4,317
Share of associate tax charge	9	(83)	(319)	(252)
Total tax charge	**15**	**(5,938)**	**(18,111)**	**(2,310)**
(Loss) / income before minority interest		**(3,635)**	**1,871**	**7,224**
Minority interest: share of net result	14	2,807	(1,030)	(1,004)
Net (loss) / income		**(828)**	**841**	**6,220**
Loss / (earnings) per share – basic and diluted (in Russian Roubles)	22			
• Ordinary		(0.02)	0.02	0.14
• Preference		-	0.02	0.14

First Deputy Chairman of the Management Board — Melamed L.B.

Finance Director — Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Cash Flow Statement for the six months ended 30 June 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001)

	Six months ended 30 June 2001	Six months ended 30 June 2000
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before taxation	**19,982**	**9,534**
Adjustments to reconcile income before taxation to net cash provided by operations:		
Depreciation and amortisation	24,921	24,097
Doubtful debtors (release) / expense	(1,433)	309
Interest expense and gain on restructuring accounts payable, taxes payable and debt	647	1,187
Share of income of associates	(400)	(40)
Gain on disposal of fixed assets and investments	(110)	(136)
Gain on regaining of control of Kuzbassenergo	-	(5,286)
Monetary and unrealised foreign exchange effects on non-operating balances	(2,337)	(5,512)
Adjustment for non-cash investing activities	(10,112)	(16,791)
Other	(311)	1
Operating income before working capital changes	**30,847**	**7,363**
Decrease / (increase) in accounts receivable and prepayments	8,096	(5,724)
Decrease / (increase) in other current assets	2,598	(1,435)
Decrease / (increase) in inventories	947	(48)
Decrease in accounts payable and accrued charges	(19,259)	(2,778)
(Decrease) / increase in taxes payable other than profits tax	(13,368)	9,313
Increase/ (decrease) in other non-current liabilities	1,917	(1,897)
Profits tax paid/non-cash	(346)	(1,788)
Profits tax paid/cash	(11,177)	(2,681)
Net cash provided by operating activities	**255**	**325**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(3,387)	(3,432)
Proceeds from sale of property, plant and equipment	731	1,211
Net proceeds from sale of investments	125	85
Net proceeds from disposals of / (additions to) other non-current assets	290	(135)
Net cash used for investing activities	**(2,241)**	**(2,271)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	24,133	22,352
Proceeds from issuance of non-current debt	496	4,976
Reduction of debt	(25,751)	(23,968)
Effect of inflation on financing activities	3,371	2,141
Interest paid	(759)	(1,142)
Dividends paid	(930)	(599)
Purchase of treasury shares	(1)	(31)
Net cash provided by financing activities	**559**	**3,729**
Effect of inflation on cash and cash equivalents	**(889)**	**(277)**
(Decrease) / increase in cash and cash equivalents	**(2,316)**	**1,506**
Cash and cash equivalents at the beginning of period	**8,578**	**2,245**
Cash and cash equivalents at the end of period	**6,262**	**3,751**

First Deputy Chairman of the Management Board — Melamed L.B.

Finance Director — Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 2000	121,617	6,324	(603)	274,544	401,882
Net income	-	-	-	6,220	6,220
Dividends	-	-	-	(760)	(760)
Other	-	-	-	1,538	1,538
Purchase of treasury shares, net	-	-	(31)	-	(31)
At 30 June 2000	121,617	6,324	(634)	281,542	408,849
At 31 December 2000, as previously reported	121,617	6324	(629)	276,165	403,477
Adoption of IAS 39 (see Note 3)	-	-	-	(2,176)	(2,176)
At 31 December 2000, as adjusted	121,617	6,324	(629)	273,989	401,301
Net income	-	-	-	841	841
Dividends	-	-	-	(974)	(974)
Purchase of treasury shares, net	-	-	(1)	-	(1)
At 30 June 2001	121,617	6,324	(630)	273,856	401,167

First Deputy Chairman of the Management Board — Melamed L.B.

Finance Director — Zhurba D.G.

19 October 2001

Note 1: The Group and its operations

The Russian Joint Stock Company for Energy and Electrification ("RAO UES") was created on 31 December 1992 following the privatisation of certain electricity power generation, transmission and distribution assets formerly under the control of the Ministry of Energy of the Russian Federation. Nuclear generation stations were not transferred to RAO UES.

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries and associates as at 30 June 2001. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Despatch Centre ("CDC") and Regional Despatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

All member companies of the Group are incorporated under the laws of the Russian Federation (the "state").
The Group performs the following major activities:

> ***High voltage network:*** The high voltage network connects all but two regions of the Russian Federation. RAO UES maintains this network and charges a fee to users of the network. The CDC, a 100 percent owned subsidiary of RAO UES, is responsible for system despatch and the Federal Wholesale Market of Electricity and Capacity ("FOREM");
>
> ***Regional generation and distribution:*** RAO UES has ownership interest in more than 70 regional power companies ("energos"), comprised of generation, distribution and sales activities . These ownership interests range from 14 percent to 100 percent; and
>
> ***Stand-alone electricity generation:*** Major generation stations produce electricity and sell it direct to FOREM. The majority of these sales are within the Group.

The Russian Federation Government Resolution No. 526 dated 11 July 2001 approved guidelines for reform of the Russian utilities and specified further steps relating to industry reform and, specifically reform of the Group. The Government Directive No. 1040-p dated 3 August 2001 approved an Action Plan for the first stage of the Electric Utilities Reform. It is planned to restructure the industry in order to de-monopolise it, introduce competition and raise investments. See further details in Note 24 – Industry Changes.

At 30 June 2001, the number of employees of the Group was approximately 684,000 (31 December 2000: 681,000).

RAO UES's registered office is located at 7, Kitaigorodsky Proezd, 103074, Moscow, Russia.

RAO UES also prepares annual parent company stand-alone financial statements in accordance with International Accounting Standards ("IAS").

Relations with the state. At 30 June 2001, the Russian Federation owned 52.7 percent of RAO UES, which represents 54.9 percent of the ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Energy Commission ("FEC"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed by regulations both specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from the IAS basis of accounting. In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases which are less than required.

Note 1: The Group and its operations (continued)

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

As described in Note 24, the government's economic, social and other policies could have material effects on the operations of the Group.

Note 2: Going concern

At 30 June 2001, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 56,318 million (31 December 2000: RR 80,265 million). The Group continues to experience difficulties settling its tax liabilities, paying trade creditors and meeting debts as they fall due. Certain other Group entities are also currently defending claims from creditors made against them in Arbitration Courts. In addition, two Group entities are currently in receivership. The total net assets of these two entities as at 30 June 2001 amounted to RR 546 million. They have been treated as investments and are carried at cost, as disclosed in Note 5.

The Group continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales and the cash content within these settlements. Despite this success there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. In addition, the budgets for many governmental organisations have declined, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 30 June 2001.

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

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

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

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 2: Going concern (continued)

Management believes that the factors noted above, among other effects, continue to affect the Group's earnings and its ability to invest in property, plant and equipment. Despite the economic conditions described above management believes that the Group will be able to continue as a going concern for the foreseeable future. The Group's operations are of strategic importance to the Russian economy. Management has taken steps which have improved collections and the proportion of cash within collections. Difficulties still remain in respect to the collection of receivables for prior years. Improvements in tariff rates have been obtained, but these increases are not sufficient to match all cost increases, or provide an appropriate level of return. Management is continuing its efforts with respect to collecting old receivables, obtaining additional tariff increases, and is also discussing with principal suppliers the continued supply of fuel and other materials, together with the restructuring of past due payables. Potential new sources of finance for investment are also being sought. The eventual outcome of these measures is uncertain.

The Group's financial statements have been presented in accordance with accounting policies based on the Group being a going concern. The going concern basis contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might result should the Group be unable to continue as a going concern.

Note 3: Basis of presentation

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention method except for revaluations of property, plant and equipment (see Note 4), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS").

The preparation of consolidated financial statements in conformity with IAS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of the impairment provision, deferred profits taxes and the allowance for doubtful debtors. Actual results could differ from these estimates.

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

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992. The indices used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 30 June 2001, and under the respective conversion factors:

Date	Index	Conversion Factor
31 December 1996	594,110	3.79
31 December 1997	659,403	3.42
31 December 1998	1,216,400	1.85
31 December 1999	1,661,481	1.36
31 December 2000	1,995,909	1.13
30 June 2001	2,252,024	1.00

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 3: Basis of presentation (continued)

The significant guidelines followed in restating these financial statements are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 30 June 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 June 2001;
- as described in Note 4, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 4, management assesses the recoverability of property, plant and equipment. The appraisal values and the impact of any impairment have been restated by applying relevant conversion factors together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 30 June 2001) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of operations and of cash flows are restated by applying appropriate conversion factors; and
- the effect of inflation on the Group's net monetary position is included in the statement of operations as a net monetary gain.

The statement of operations includes a net monetary gain of RR 4,666 million and RR 11,624 million for the three and six months ended 30 June 2001, respectively (six months ended 31 December 2000: RR 11,774 million) because on average the Group had net monetary liabilities during this period. Since 30 June 2001, inflation has continued. As at 31 August 2001 the CPI was 2,263,284 (1988 = 100), representing inflation of 0.50 percent since 30 June 2001.

Adoption of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). With effect from 1 January 2001, the Group has adopted IAS 39 – Financial Instruments: Recognition and Measurement (IAS "39"). The effect of adopting this standard is summarised below, and further information is disclosed in Note 4. Comparative information was not restated as prescribed by the transitional provisions of this standard.

The opening balance sheet (not presented) has been restated in order to reflect the new measurement requirements of IAS 39, and the resulting adjustments, shown below, were taken to retained earnings and other reserves in accordance with the transitional provisions.

	Total effect to items measured Increase / (decrease)	**Deferred profits tax liabilities** Increase / (decrease)	**Minority interests** Increase / (decrease)	**Retained earnings and other reserves** Increase / (decrease)
Other investments	(3,064)	-	-	(3,064)
Accounts payable, taxes payable, debt	(2,711)	923	900	888
		923	900	(2,176)

Other investments reflects the assessment by management of the fair value of these assets. Accounts payable and taxes payable are comprised of specific amounts payable which have been renegotiated with creditors for long-term repayment, while the adjustment to debt arises from loans obtained at rates lower than those normally commercially available.

Note 4: Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of RAO UES and the financial statements of those entities whose operations are controlled by RAO UES. Control is deemed to exist when RAO UES controls greater than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. Control is deemed to exist for such entities on the basis of a dominant shareholding combined with other factors which allow the Group to exercise control.

A significant majority of principal subsidiary Companies described in Note 5 were transferred to RAO UES by the Russian Federation on and after its incorporation into a joint stock company. These transfers represented a reorganisation of assets under common control and, accordingly, are accounted for in a manner similar to uniting of interests from the date of privatisation of each Group entity.

All material inter-group balances and transactions have been eliminated. Separate disclosure is made of minority interests. Certain non-material subsidiaries have not been consolidated.

Associated enterprises. Investments in associated enterprises are accounted for using the equity method of accounting. Associated enterprises are entities over which RAO UES is deemed to exercise significant influence but which it does not control.

Investments. At 1 January 2001 the Group adopted IAS 39. Investments intended to be held for an indefinite period of time, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale investments are comprised of non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to a variety of methods including estimated discounted value of future cash flows.

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 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.

Prior to the adoption of IAS 39 investments had been recorded at cost and provisions were recorded only where there was a diminution in value other than temporary.

Foreign currency. Monetary assets and liabilities which are held by Group entities 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 4: Summary of significant accounting policies (continued)

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar at 30 June 2001 was 29.07:1 (31 December 2000: 28.16:1). Significant exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

Dividends. Dividends are recognised only if they are declared on or prior to the balance sheet date.

Property, plant and equipment. Property, plant and equipment as at 30 June 2001 is stated at depreciated replacement cost, based upon values determined by professional valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation by applying relevant conversion factors from the appropriate date. Management assesses the recoverability of property, plant and equipment. Any impairment loss reduces the depreciable base of property, plant and equipment.

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

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

Depreciation on 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:

Type of facility	Years
Electricity and heat generation	50
Electricity transmission	40
Electricity distribution	40
Heating networks	25
Other	15

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

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

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

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

Note 4: Summary of significant accounting policies (continued)

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. An allowance for doubtful debtors as determined by Group management is recorded to reduce the carrying value of accounts receivable to their estimated net recoverable amount based on an analysis of expected future cash flows.

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

Inventories. Inventories are valued at the lower of net realisable value and weighted average cost, restated to the equivalent purchasing power of the Russian Rouble at 30 June 2001. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

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

Deferred profits taxes are not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are declared. Deferred profits tax, at the current withholding tax rate of 15 percent, are provided for the undistributed earnings of associated enterprises.

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.

If accounts payable are restructured the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring. The amount of the discount is credited to the statement of operations (monetary effect and financing items) as a fair value gain, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

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

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity of the Group's subsidiaries. This has been calculated based upon the non-Group ownership percentage of these subsidiaries. Specific rights on dissolution for preference shareholders are included in the calculation of minority interests. RAO UES does not own any preference shares in subsidiaries.

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

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

Note 4: Summary of significant accounting policies (continued)

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

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

Earnings 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 period. Losses are not allocated to preference shares in this calculation.

Treasury shares. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian Rouble as at the balance sheet date. Any gains or losses arising on the disposal of treasury shares are recorded in the statement of changes in shareholders' equity.

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 5: Principal subsidiaries

The following subsidiary enterprises have been consolidated into the Group’s financial statements. All subsidiaries are incorporated and operate in Russia.

Regional generation and distribution companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre			***South***		
Astrakhanenergo	49.0	49.0	Dagenergo	51.1	51.1
Belgorodenergo	49.0	65.3	Kabbalkenergo	53.7	66.1
Ivenergo	49.7	56.6	Kalmenergo	96.4	96.4
Kalugaenergo	49.0	49.0	Karachaevo-Cherkesskenergo	100.0	100.0
Kostromaenergo	49.0	65.3	Kubanenergo	49.0	49.0
Kurskenergo	49.4	59.8	Rostovenergo	48.4	62.8
Lipetskenergo	49.0	49.0	Sevkavkazenergo	49.0	49.0
Mosenergo	50.9	50.9	Stavropolenergo	54.8	71.5
Nizhnovenergo	49.0	62.3			
Orelenergo	49.5	60.6	***Ural***		
Ryazanenergo	49.0	49.0			
Tambovenergo	49.0	56.0	Chelyabenergo	49.0	58.1
Tulaenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Kurganenergo	49.0	53.8
Vladimirenergo	49.1	49.1	Orenburgenergo	100.0	100.0
Volgogradenergo	49.0	61.3	Permenergo	49.0	64.4
Vologdaenergo	49.0	49.0	Sverdlovenergo	49.0	65.3
Voronezhenergo	49.0	65.3	Tumenenergo	100.0	100.0
Yarenergo	47.8	60.3	Udmurtenergo	49.0	55.4
North-West			***Siberia***		
Arkhenergo	49.0	59.1	Altaienergo	54.7	72.2
Bryanskenergo	49.0	65.2	Buryatenergo	47.6	47.6
Karelenergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	65.5	Khakasenergo	100.0	100.0
Komienergo	49.0	49.2	Krasnoyarskenergo	51.7	66.3
Lenenergo	49.0	57.4	Kuzbassenergo	49.0	49.0
Novgorodenergo	49.0	62.9	Omskenergo	49.0	60.4
Pskovenergo	49.0	49.0	Tomskenergo	52.0	59.9
Smolenskenergo	48.7	59.3			
Yantarenergo	100.0	100.0	***East***		
Middle Volga			Amurenergo	52.0	60.9
			Dalenergo	49.0	65.3
Chuvashenergo	100.0	100.0	Khabarovskenergo	49.0	61.0
Marienergo	64.4	70.1	Kolymaenergo	99.8	99.8
Mordovenergo	53.2	53.2	Kamchatskenergo	49.0	59.2
Penzaenergo	49.0	60.2	Magadanenergo	49.0	64.4
Samaraenergo	49.2	56.3	Sakhalinenergo	49.0	49.0
Saratovenergo	49.8	64.6	Yakutskenergo	49.0	58.1
Ulyanovskenergo	49.0	65.3			

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	77.0	78.5	Taimyrenergo	100.0	100.0
Kabbalk GES	75.9	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.6
Kaskad Verhnevolzhskih GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Sayano-Shushenskaya GES	78.9	82.8	Zaramagskie GES	89.8	91.8
Sulakenergo	99.5	99.5	Zeiskaya GES	56.9	72.5
			Zelenchugskie GES	69.2	69.2

Thermal generating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES -1	100.0	100.0	Nevinomysskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	North-West Station	53.5	60.5
Gusinoozerskaya GRES	100.0	100.0	Novocherkasskaya GRES	100.0	100.0
Konakovskaya GRES	51.0	51.0	Pechorskaya GRES	51.0	51.0
Kostromskaya GRES	51.0	51.0	Permskaya GRES	100.0	100.0
Krasnoyarskaya GRES -2	100.0	100.0	Pskovskaya GRES	50.0	50.0
Kuban GRES	79.8	99.9	Ryazanskaya GRES	100.0	100.0
Kaliningradskaya TETS -2	86.6	86.6	Shekinskie PGU	92.1	98.9
Lutek	56.3	56.3	Stavropolskaya GRES	51.0	51.0
			Troitskaya GRES	100.0	100.0

Construction companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Boguchangesstroi	66.1	70.2	Cherkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Zeyagesstroi	100.0	100.0

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Despatch Centre	100.0	100.0	Neftianoy Dom	75.0	75.0
Centre of Settlement Optimisation	100.0	100.0			

Differences between ownership interest and voting interest normally represent the effect of preference shares. RAO UES does not hold any preference shares of its subsidiaries. Such preference shares do not have any voting rights, unless dividends have not been declared fully at the Annual Shareholders' meeting.

RAO UES holds voting interest of 71.6 percent in Grozenergo. This entity is situated in the City of Grozny in the Chechen Republic. Currently, the Republic is experiencing a time of social upheaval and military intervention. RAO UES holds voting interests of 31.7 percent in Biskaya TETS. This entity has been placed in receivership as a consequence of bankruptcy proceedings. RAO UES holds voting interest of 100.0 percent in Sevkavgidroenergostroi. In August 2000, bankruptcy procedures were initiated against this entity. RAO UES no longer has control or significant influence over the above three entities and, accordingly, they have been accounted for as Other investments.

Note 5: Principal subsidiaries (continued)

RAO UES holds interests of 66.3 percent and 58.1 percent in Krasnoyarskenergo and Yakutskenergo, respectively. Since the privatisation process of the industry, RAO UES transferred, on an annual basis, part of their voting rights to the respective local governments of these regions. Through the ceding of part of its voting rights RAO UES held a reduced voting interest of 32.9 percent and 34.4 percent in Krasnoyarskenergo and Yakutskenergo, respectively and accounted for these entities as associates. From 31 December 2000, RAO UES ceased to cede any of its voting rights and has consolidated these entities as subsidiaries from that date.

Subsequent to the period end, the Group acquired a controlling interest in OOO Media-Holding REN-TV, an entity which holds television broadcasting equipment and licenses. Prior to the acquisition, the Group held debt of one of the entities of the REN-TV Group. The controlling interest was acquired in exchange for the debt, which is included in other current assets at the balance sheet date.

During the period ended 30 June 2001 there were certain other changes in RAO UES' ownership percentage of several of its subsidiaries, which had an immaterial impact on the statement of operations.

Note 6: Segment information

Primary reporting segments - business segments. The Group is organised into four main business segments; this classification is consistent with the disclosure in the prior year's consolidated financial statements.

- ***"RAO UES segment"*** this segment maintains and operates the high voltage electricity transmission grid and controls FOREM. Transmission fees paid by energos are set by the FEC. RAO UES also participates in joint ventures with energos and other entities to construct new power stations. These are included within this segment. As a consequence of the inclusion of these additional entities, this segment does not equal the amounts in the IAS financial statements of the parent company;

- ***"Energos segment"*** consists of regional electricity & heat generation and distribution. The majority of electricity generated by energos is sold within the regions in which the energo operates at tariffs set by REC. Certain energos have surplus generation and sell electricity to FOREM. Tariffs in FOREM are set by the FEC;

- ***"Hydro and thermal generating stations segment"*** consists of entities that sell electricity to energos through FOREM, at tariffs set by the FEC; and

- ***"Construction segment"*** consists of construction entities.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 6: Segment information (continued)

Three months ended 30 June 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	8,723	76,762	8,298	679	-	94,462
Inter-group revenues	(6,421)	(512)	(7,411)	-	-	(14,344)
Total revenues	2,302	76,250	887	679	-	80,118
Segment income / (loss)	4,014	(4,773)	(2,010)	(635)	892	(2,512)
Share of income of associates	-	198	-	-	-	198
Monetary effects						4,617
Income before taxation						2,303
Total tax charge						(5,938)
Loss before minority interest						(3,635)
Minority interest: share of net result						2,807
Net loss						(828)
Capital expenditures	1,829	5,047	1,585	360	-	8,821
Depreciation and amortisation	2,173	8,711	1,542	41	-	12,467
Doubtful debtors expense / (release)	282	(192)	(553)	(64)	-	(527)

Six months ended 30 June 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	17,915	183,452	19,480	1,095	-	221,942
Inter-group revenues	(13,345)	(1,741)	(17,681)	-	-	(32,767)
Total revenues	4,570	181,711	1,799	1,095	-	189,175
Segment income / (loss)	7,122	2,187	(1,553)	(344)	1,625	9,037
Share of income of associates	-	400	-	-	-	400
Monetary effects						10,545
Income before taxation						19,982
Total tax charge						(18,111)
Income before minority interest						1,871
Minority interest: share of net result						(1,030)
Net income						841
Capital expenditures	2,782	8,929	3,722	579	-	16,012
Depreciation and amortisation	4,292	17,583	2,978	68	-	24,921
Doubtful debtors expense / (release)	346	(826)	(853)	(100)	-	(1,433)

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 6: Segment information (continued)

Six months ended 30 June 2000:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	13,918	156,680	16,827	148	-	187,573
Inter-group revenues	(9,165)	(2,080)	(12,602)	-	-	(23,847)
Total revenues	4,753	154,600	4,225	148	-	163,726
Segment loss	(530)	(1,401)	(5,473)	(278)	7,294	(388)
Share of income of associates	-	40	-	-	-	40
Monetary effects						9,882
Income before taxation						9,534
Total tax charge						(2,310)
Income before minority interest						7,224
Minority interest: share of net result						(1,004)
Net income						6,220
Capital expenditures	1,404	12,056	2,051	660	18,266	34,437
Depreciation and amortisation	5,842	16,359	1,828	68	-	24,097
Doubtful debtors expense / (release)	213	(1,000)	1,148	25	(77)	309

As at 30 June 2001	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Segment total assets	287,921	632,863	112,435	18,351	(154,321)	897,249
Associates	-	4,198	-	131	-	4,329
Total assets	287,921	637,061	112,435	18,482	(154,321)	901,578
Segment liabilities	44,926	264,253	46,700	3,099	(28,184)	330,794

As at 31 December 2000						
Segment total assets	311,573	660,604	117,546	8,276	(171,767)	926,232
Associates	-	4,117	-	131	-	4,248
Total assets	311,573	664,721	117,546	8,407	(171,767)	930,480
Segment liabilities	53,515	282,373	52,723	2,630	(33,207)	358,034

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 6: Segment information (continued)

Secondary reporting segments - geographical segments. The Group operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. Group entities have been aggregated within these geographical areas based on the area where their assets are located, with the exception of the RAO UES segment. The transmission grid, owned by RAO UES, is located throughout the territory of the Russian Federation but is recorded in the books of RAO UES without details of geographic location. Accordingly, it is not practicable to split the assets of RAO UES on a geographical basis. The Group's assets generate revenues primarily within the geographical region where they are located.

	Revenue			Total assets		Capital expenditures		
	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000	30 June 2001	31 December 2000	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
RAO UES segment	8,723	17,915	13,918	287,921	311,573	1,829	2,782	1,404
Centre	25,569	62,003	53,910	232,950	242,585	1,929	3,327	4,359
North-West	9,622	22,660	17,739	67,464	71,916	731	2,427	2,053
Urals	20,120	46,758	42,292	169,651	173,221	854	1,572	2,686
Siberia	10,416	24,745	18,061	104,987	101,846	748	1,622	1,940
Mid-Volga	5,889	14,187	14,409	54,867	53,765	869	1,117	1,121
East	7,372	18,151	14,516	81,127	89,897	1,200	2,124	1,508
South	6,751	15,523	12,728	56,932	57,444	661	1,041	1,099
	94,462	221,942	187,573	1,055,899	1,102,247	8,821	16,012	16,170
Consolidation adjustments	(14,344)	(32,767)	(23,847)	(154,321)	(171,767)	-	-	18,267
	80,118	189,175	163,726	901,578	930,480	8,821	16,012	34,437

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 7: Related parties

Eurofinance. Eurofinance is a financial organisation which provides services to the UES Group. These services include the collection of accounts receivable balances, the provision of short-term loans, and the purchase and sale promissory notes (veksels). A member of the management board of RAO UES is also a member of the board of directors of Eurofinance. The commission and the interest charged by Eurofinance to RAO UES was RR nil and RR 32 million for the three and six months ended 30 June 2001, respectively. Commission and interest tended to approximate market rates. As at 30 June 2001 RAO UES held RR 128 million of promissory notes of Eurofinance (31 December 2000: RR 943 million). The balance outstanding due to RAO UES from Eurofinance was RR 1,195 million and RR 199 million as at 30 June 2001 and 31 December 2000, respectively.

Associates. The following transactions were carried out with associates, the majority of which are based on tariffs set by the FEC:

	Three months ended 30 June 2001	**Six months ended 30 June 2001**	**Six months ended 30 June 2000**
Electricity revenues	1	17	463
Purchased power	53	60	557
Transmission fee income	112	234	655
Rental fee income	10	19	26

Directors' compensation. Compensation is paid to members of the management board of RAO UES for their services in full time management positions. The compensation and is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to Russian statutory financial statements. These are approved by the board of directors. Discretionary bonuses are also payable to members of the management board, which are approved by the Chairman of the managing board according to his perception of the value of their contribution.

No fees, compensation or allowances are paid to members of the board of directors of RAO UES for their services in that capacity, or for attending board meetings.

Salary and bonuses paid to members of the management board by RAO UES, included in wages and payroll taxes in the statement of operations, amounted to RR 22 million and RR 37 million for the three and six months ended 30 June 2001, respectively. In addition, certain amounts were paid by RAO UES' subsidiaries.

Sales contracts. The Group holds two export contracts with a shareholder of one of the energos (see Note 23).

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 8: Property, plant and equipment

Appraised value or cost

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2000	549,025	172,698	562,063	99,622	216,752	179,291	1,779,451
Additions	45	2	209	6	13,239	2,511	16,012
Transfers	5,266	191	1,516	207	(10,049)	2,869	-
Disposals	(1,703)	(23)	(1,808)	(252)	(2,524)	(1,941)	(8,251)
Closing balance as at 30 June 2001	552,633	172,868	561,980	99,583	217,418	182,730	1,787,212

Accumulated depreciation

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2000	(332,513)	(83,151)	(379,380)	(62,752)	(73,670)	(111,337)	(1,042,803)
Charge for the period	(6,359)	(2,978)	(6,869)	(1,774)	-	(6,941)	(24,921)
Disposals	1,322	12	890	64	1,488	1,790	5,566
Transfers	(2,528)	-	(819)	(99)	4,824	(1,378)	-
Closing balance as at 30 June 2001	(340,078)	(86,117)	(386,178)	(64,561)	(67,358)	(117,866)	(1,062,158)
Net book value as at 31 December 2000	216,512	89,547	182,683	36,870	143,082	67,954	736,648
Net book value as at 30 June 2001	212,555	86,751	175,802	35,022	150,060	64,864	725,054

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction. Many of these construction projects are joint ventures between RAO UES and energos or other third parties, each party contributing cash and assets to the venture. Where the Group owns a majority of the venture, the full carrying value of the project is included in construction in progress. The non-Group ownership interest is recorded as minority interests. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the venture. When construction projects are completed the cost, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

Depreciation is charged once an asset is available for service.

Other fixed assets include motor vehicles, computer equipment, office fixtures and other equipment.

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

	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
Non-cash acquisitions	6,446	12,106	12,923
Non-cash proceeds from the sale of property, plant and equipment	1,464	1,706	2,461

The majority of the above non-cash purchase acquisitions related to construction in progress.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 8: Property, plant and equipment (continued)

Impairment. For the period ended 30 June 2001, management has assessed the adequacy of its existing impairment provision and concluded that the amount is appropriate. Accordingly, no further adjustment has been recorded. Real discount rates approximating to 21 percent reducing over time to 9 percent have been used in the estimate of recoverable value through discounted cash flows. The impairment provision included within the accumulated depreciation balance as at 30 June 2001 is RR 718,899 million.

Management cannot predict with certainty the length or impact of the current economic difficulties, nor the impact of future changes in fiscal, political and tariff setting policies. Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount for the impairment provision. In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions in Russia.

Note 9: Investments in associates

The Group has investments in the following associated enterprises that have been accounted for under the equity method in the consolidated financial statements based upon the percentage of ownership held by the RAO UES Group in such enterprises. All associated enterprises are incorporated and operate in Russia.

	Six months ended 30 June 2001		Year ended 31 December 2000	
Enterprise name	**% Ownership**	**% Voting**	**% Ownership**	**% Voting**
Bashkirenergo	21.3	22.3	21.3	22.3
Novosibirskenergo	14.2	16.9	14.2	16.9

	Bashkir-energo	Novosibirsk-energo	Other	Total
Carrying value as at 31 December 2000	2,917	1,200	131	4,248
Share of income/(loss) of associates	409	(9)	-	400
Share of associates' tax charge	(259)	(60)	-	(319)
Carrying value as at 30 June 2001	3,067	1,131	131	4,329

The Group's interest in associated enterprises is shown in the consolidated balance sheet at its proportion of net assets attributable to the Group at the date of transfer from the Russian Federation plus the Group's share of post-acquisition earnings and losses and other changes in the enterprise's equity, restated in terms of purchasing power of the Russian Rouble as at 30 June 2001.

Note 10: Cash and cash equivalents

	30 June 2001	31 December 2000
Cash at bank and in hand	5,737	7,177
Cash equivalents	128	1,310
Foreign currency accounts	397	79
Restricted cash	-	12
	6,262	8,578

Cash equivalents comprise short-term investments in bank promissory notes.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 11: Accounts receivable and prepayments

	30 June 2001	31 December 2000
Trade receivables (Net of allowance for doubtful debtors of RR 73,679 million as at 30 June 2001 and RR 87,131 million as at 31 December 2000)	52,372	60,032
Value added tax recoverable	18,433	20,804
Other receivables (Net of allowance for doubtful debtors of RR 6,786 million as at 30 June 2001 and RR 7,338 million as at 31 December 2000)	17,724	15,818
Advances to suppliers	15,120	14,271
Receivables from associates	609	1,043
Prepayments	1,929	882
	106,187	112,850

Management has determined the allowances for doubtful debtors based on specific customer identification, industry payment trends, subsequent receipts and settlements and analyses of expected future cash flow. The management of the Group believe that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements. For the six months ended 30 June 2001, approximately 18 percent (six months ended 30 June 2000: 36 percent) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Note 12: Inventories

	30 June 2001	31 December 2000
Fuel production stocks	8,914	8,655
Materials and supplies	26,720	28,043
Other inventories	2,274	2,158
	37,908	38,856

The above inventory balances are recorded net of an obsolescence provision of RR 1,720 million and RR 1,997 million as at 30 June 2001 31 December 2000, respectively.

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	30 June 2001	31 December 2000
Ordinary shares	41,041,753,984	121,617	121,617
Preference shares	2,075,149,384	6,324	6,324
		127,941	127,941

The authorised number of ordinary and preference shares are 47,509,289,488 and 2,075,149,384 respectively, both with a nominal value per share of 0.5 Russian Roubles. All authorised preference shares have been issued. The value of the share capital is stated in terms of the purchasing power of the Russian Rouble at the consolidated balance sheet date.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 13: Shareholders' equity (continued)

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

The annual statutory accounts of the parent company, RAO UES, are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the net profit for the year. For 2000, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 6,413 million (uninflated). 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 be not appropriate to disclose an amount for the distributable reserves in these financial statements.

A dividend was declared in 2001 in respect of the year ended 31 December 2000 of RR 0.0200 per ordinary share (in respect of 1999: RR 0.0177 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0738 per preference share (in respect of 1999: RR 0.0497 per preference share, RR 0.0367 per preference share uninflated). Preference dividends outstanding were RR 16 million as at 30 June 2001 (31 December 2000: RR 18 million).

On 7 May 1998 the law number 74-FZ "On the Peculiarities of Share Distribution of UES" was signed by the President of the Russian Federation. This law stipulates that a minimum of 51.0 percent of voting shares in RAO UES be held by the government of the Russian Federation and that foreign investors are limited to owning not more than 25.0 percent of the voting shares of the company. The practical implications of this foreign ownership limitation for the Company or its shareholders are unclear.

Treasury shares. Treasury shares as at 30 June 2001 represent 400,718,589 (31 December 2000: 400,442,692) ordinary shares and 17,587,446 (31 December 2000: 17,540,420) preference shares purchased and held by the Group, at cost.

The Group periodically purchases and sells such treasury shares.

	Cost as at 31 December 2000	Purchases and disposals, net	Cost as at 30 June 2001
Ordinary shares	580	1	581
Preference shares	49	-	49
	629	1	630

Note 14: Minority interests

	Six months ended 30 June 2001	12 months ended 31 December 2000
Opening balance	168,969	155,735
Share of net result	1,030	518
Adoption of IAS 39 (see Note 3)	900	-
Acquisitions and changes in Group structure	(938)	13,049
Dividends	(344)	(333)
Closing balance	169,617	168,969

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 15: Deferred profits tax

Most members of the Group were subject to profits tax rates of 35 percent on taxable profits from 1 January 2001. A few members of the Group operate in regions that have reduced profits tax rates. In the context of Russian tax legislation tax losses in different Group companies may not be relieved against taxable profits of other Group companies. Accordingly taxes may accrue even where there is a net consolidated tax loss.

Net income before taxation for financial reporting purposes is reconciled to tax expenses as follows:

	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
Income before taxation	**2,303**	**19,982**	**9,534**
Theoretical tax charge at an average statutory tax rate of 35% thereon (2000: 30%)	(806)	(6,994)	(2,861)
Tax effect of items which are not deductible or assessable for taxation purposes:			
Net non-deductible expenses	(352)	(2,046)	(3,904)
Non-temporary elements of monetary gains / losses	(10,896)	(26,399)	(16,696)
Doubtful debtors expense	185	502	(93)
Tax interest and penalties	(759)	(1,959)	(2,258)
Inflation effect on deferred tax balance at beginning of the period	4,261	10,332	7,090
Temporary difference in statutory revaluation of tax base	-	5,984	3,855
Non-recognised deferred tax assets movements	1,708	3,789	8,076
Other	721	(1,320)	4,481
Total tax charge	(5,938)	(18,111)	(2,310)

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

Differences between IAS 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. The tax effect of the movement on these temporary differences is recorded at the rate of 35 percent for most Group members.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 15: Deferred profits tax (continued)

Deferred profits tax liability

	30 June 2001	Movement for the period	Adoption of IAS 39	31 December 2000
Trade receivables	7,062	(650)	-	7,712
Property, plant and equipment	90,825	6,330	-	84,495
Accounts payable	222	(470)	923	(231)
Inventories	(462)	354	-	(816)
Other	1,086	1,385	-	(299)
	98,733	6,949	923	90,861

Deferred profits tax asset

	30 June 2001	Movement for the period	Adoption of IAS 39	31 December 2000
Trade receivables	(393)	(396)	-	3
Property, plant and equipment	15,814	(3,052)	-	18,866
Accounts payable	(130)	(201)	-	71
Inventories	23	(58)	-	81
Other	643	(82)	-	725
	15,957	(3,789)		19,746
Less non-recognised deferred tax asset	(15,957)	3,789	-	(19,746)
	-	-	-	-

A deferred profits tax asset has not been recognised for the Group's unused profits tax losses either as at 30 June 2001 or 31 December 2000.

In August 2001, a profit tax rate of 24% was enacted, effective from 1 January 2002. As this tax rate was not enacted or substantively enacted at 30 June 2001, the effect of the change in tax rate on deferred tax liabilities is not recognised in these interim financial statements. The effect of the change on closing deferred tax liabilities balance will be reflected in the financial statements for the period ended 30 September 2001.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 16: Non-current debt

	Currency	Contractual interest rate	Due	30 June 2001	31 December 2000
Bank debt in Russian banks	RR	0% – 20%	2001 and thereafter	286	232
Bank debt in Russian banks	Hard currency	0% – 20%	2001 and thereafter	195	296
Bank debt in Russian banks	RR	21%-40%	2001 and thereafter	289	555
Bank debt in Russian banks	RR	> 40%	2001 and thereafter	19	26
Eurobond	US$	8.4%	2002-2003	4,513	4,933
Bonds – RAO UES	RR /US$	5%	2002-2003	3,000	3,385
Bonds issued by subsidiaries	RR/ US$	8%	2003	3,715	3,898
Central government loans	RR	0% – 20%	2001 and thereafter	3,810	2,483
Central government loans	RR	21% – 40%	2001 and thereafter	22	182
Central government loans	RR	> 40%	2001 and thereafter	206	258
Regional government loans	RR	0% – 20%	2001 and thereafter	146	513
Foreign banks	US$	0% – 20%	2001 and thereafter	1,389	1,270
Other long-term debt				137	583
Total non-current debt				17,727	18,614
Less: current portion of non-current debt				(4,370)	(4,698)
				13,357	13,916

In accordance with IAS 39, at their inception the borrowings have been stated at fair value, determined using market interest rates applicable to the Group at the times the loans were originated. For Russian Rouble debt, the rate used to determine the fair value of the Group's loans was 20%. For US Dollar and hard currency loans, the applicable rate was 8%.

Maturity Table.

	30 June 2001	31 December 2000
Due for re-payment		
Between one and two years	9,080	1,474
Between two and five years	3,364	12,434
After 5 years	913	8
	13,357	13,916

A significant amount of the Group's current and non-current debt is supported by promissory notes given by the Group entities that obtained the loan. The majority of the above debt is obtained at a variable interest rate.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At the balance sheet date, the fair value of long-term debt, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments, did not materially differ from the carrying amount of this financial instrument.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 17: Current debt and current portion of non-current debt

	Contractual interest rate	30 June 2001	31 December 2000
Current debt*	0-20%	5,799	4,977
Current debt	21-40%	3,951	3,606
Current debt	>40%	-	42
Current portion of non-current debt		4,370	4,698
		14,120	13,323

* Holders of these bonds have the right to early redemption. As a consequence, these bonds were classified as current debt.

Note 18: Accounts payable and accrued charges

	30 June 2001	31 December 2000
Trade payables	80,542	99,898
Bills of exchange payable	1,237	2,566
Payables to associates	35	59
Dividends payable	1,233	493
Accrued liabilities and other creditors	23,080	26,332
	106,127	129,348

In the six months ended 30 June 2001, approximately 29 percent (six months ended 30 June 2000: 50 percent) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Accounts payable that have been renegotiated with creditors have been assessed for fair value using a discount rate of 20%.

Note 19: Taxes payable

	30 June 2001	31 December 2000
Value added tax	29,979	37,059
Fines and interest	33,859	32,750
Turnover taxes	8,416	12,200
Employee taxes	6,609	7,512
Profits tax	5,417	6,896
Property tax	2,472	2,148
Other taxes	4,500	6,735
	91,252	105,300

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

- in Value added tax – RR 10,182 million (31 December 2000: RR 11,332 million); and
- in Turnover taxes – RR 863 million (31 December 2000: RR 823 million).

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 19: Taxes payable (continued)

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

For the six months ended 30 June 2001, approximately 2 percent (six months ended 30 June 2000: 40 percent) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 20: Governmental assistance

During the three and six months ended 30 June 2001 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 376 million and RR 1,008 million, respectively (six months ended 30 June 2000: RR 1,074 million), for certain entities in the Far East region and RR 284 million and RR 449 million for the three and six months ended 30 June 2001, respectively (six months ended 30 June 2000: RR 127 million) for other Group entities. The assistance in respect of these periods has been credited to the statement of operations.

Note 21: Monetary effects and financing items

	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
Monetary gain	4,666	11,624	11,774
Interest expense	(767)	(1,890)	(1,187)
Foreign exchange loss	(95)	(432)	(705)
Gain on restructuring accounts payable, taxes payable and debt	813	1,243	-
	4,617	10,545	9,882

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2001, except as disclosed)

Note 22: Earnings per share

Earnings per share is calculated by dividing the net income attributable to shareholders after the deduction of the declared dividend to Preference Shareholders by the weighted average number of ordinary and preference shares outstanding during the period, excluding the average number of shares purchased by the Group and held as treasury shares. Preference shares do not participate in losses and are therefore excluded from the calculation of loss per share.

	Three months ended 30 June 2001	Six months ended 30 June 2001	Six months ended 30 June 2000
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	n/a	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(400,918)	(418,392)	(414,844)
Weighted average number of ordinary and preference shares outstanding (thousands)	40,640,836	42,698,511	42,702,059
(Loss) / net income	(828)	841	6,220
Dividend declared during period to preference shareholders	(153)	(153)	(103)
Adjusted (loss) / net income	(981)	688	6,117
(Loss) / earnings per share – basic and diluted (in Russian Roubles)			
• Ordinary	(0.02)	0.02	0.14
• Preference	-	0.02	0.14

Note 23: Commitments

Sales commitments. The Group entered into two export contracts with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo. One contract is for the supply of a minimum of 1.6 million MWh of electricity per year, at prices between Euro 11.90 and Euro 13.40 per MWh. This contract expires at the end of 2007. The second contract with Fortum is for the supply of between 0.35 million and 0.50 million MWh of electricity per year at Euro 17.25 per MWh, through to the end of 2008.

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements for 1 July 2001 onwards in excess of amounts contracted will be purchased through short term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

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

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 31,940 million at 30 June 2001, and RR 25,721 million at 31 December 2000.

Guarantee. At the period end, the Group had issued guarantees not to exceed US$ 250 million in favour of subcontractors carrying out construction work at one of its subsidiaries.

Note 24: Contingencies

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

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

Legal proceedings. Group entities are 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 Group.

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

Industry changes. Under Government Resolution No 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulated market will be set up for, initially, sales of 5-15% of electricity generated. After 2004 all sales of electricity generated will become subject to free trade.

The industry structure will also change. In accordance with the "Action Plan for the 1st Stage of the Electric Utilities Reform", approved by Government Directive No. 1040-p dated 3 August 2001, the following is being undertaken:

- Trade System Administrator ("TSA"): it is planned that during the first stage through December 2002, the Group will hold a 50% vote in the Supervisory Council of the TSA.

- The Group has developed proposals for the establishment of a Federal Grid Company. These will be considered by the Group's Board of Directors in the autumn of 2001.

- Starting in the fourth quarter of 2001 independent generators will begin to be established. At a regional level, regional grid companies will be established based on the regional energos for the purpose of non-discriminatory access for all electricity generators and customers to the grid. The subsidiaries and associates of the Group have already taken steps to prepare for this reform.

- In the first quarter of 2002, a System Operator (in charge of electricity despatch) will be put into place.

During the restructuring, amendments to Russian legislation will be proposed. The Group's management will take an active part in the development of the new regulations and the amendment of existing ones. At this time, the impacts of the industry changes on the financial results and position of the Group cannot be readily assessed.

Environmental matters. Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying consolidated balance sheet.

Note 25: Financial instruments and financial risk factors

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

Credit risk. Financial assets which potentially subject Group entities 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 Group beyond the allowance for doubtful debtors already recorded.

Additionally, a number of Group entities have placed with foreign banks contracts for the repurchase of Russian debt instruments. The repurchase contracts amount to RR 6,782 million and are reflected within other non-current assets at their estimated fair values. These contracts mature in 2003. If these are not effective then the total Group exposure is RR 6,715 million.

Foreign exchange risk. The Group primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Group's purchases are denominated in Russian Roubles. The major concentration of foreign exchange risk is in relation foreign currency denominated sales and purchase commitments, as disclosed in Note 23, and US Dollar denominated debt and Russian Roubles denominated debt linked to US Dollar currency movements, as disclosed in Note 16.

Interest rate risk. As discussed in Note 16 the majority of interest rates on debt are variable. Interest rates on Russian Rouble denominated debt are reset when the underlying Central Bank re-financing rate changes. The interest rate on the Eurobond of US $200 million is fixed at 8.4 percent; the interest rates on bonds issued by RAO UES and on bonds issued by subidiaries are 5 percent and 8 percent, respectively. Assets are generally non-interest bearing.

Note 26: Subsequent events

In October 2001, the Group obtained a Euro 100 million credit facility from the European Bank for Reconstruction and Development. The facility expires in April 2005.