RAO UES GROUP
IAS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

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AUDITORS' 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 balance sheet of RAO UES and its subsidiaries (the "Group") as at 31 December 2001 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements, set out on pages 1 through 32, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2001, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
26 June 2002

RAO UES Group

Consolidated Balance Sheet as at 31 December 2001

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

	Notes	31 December 2001	31 December 2000
Assets			
Non-current assets			
Property, plant and equipment	8	758,791	775,756
Investments in associates	9	4,859	4,474
Other non-current assets	3,10	24,210	27,189
Total non-current assets		**787,860**	**807,419**
Current assets			
Cash and cash equivalents	11	12,642	9,034
Accounts receivable and prepayments	12	90,906	114,691
Inventories	13	37,428	40,918
Loans issued	1	13,325	-
Other current assets		4,763	7,816
Total current assets		**159,064**	**172,459**
Total assets		**946,924**	**979,878**
Shareholders' equity and liabilities			
Shareholders' equity	14		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		128,074	128,074
Preference shares (nominal value RR 1,038 million)		6,660	6,660
Treasury shares		(662)	(663)
		134,072	134,071
Retained earnings and fair value reserve		329,739	290,826
Total shareholders' equity		**463,811**	**424,897**
Minority interest	15	191,368	177,939
Non-current liabilities			
Deferred profits tax liabilities	16	78,559	95,685
Non-current debt	17	23,413	14,655
Other non-current liabilities	18	21,971	5,567
Total non-current liabilities		**123,943**	**115,907**
Current liabilities			
Current debt and current portion of non-current debt	19	34,800	14,030
Accounts payable and accrued charges	3,20	88,895	136,215
Taxes payable	21	44,107	110,890
Total current liabilities		**167,802**	**261,135**
Total shareholders' equity and liabilities		**946,924**	**979,878**

Chairman of the Management Board Chubais A.B.

Finance Director Zhurba D.G.

26 June 2002

RAO UES Group

Consolidated Statement of Operations for the year ended 31 December 2001

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

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
Revenues			
Electricity		296,127	251,675
Heating		72,258	64,121
Transmission fees		1,194	2,551
Governmental assistance	22	3,297	3,693
Other		27,178	29,562
Total revenues		**400,054**	**351,602**
Costs and other deductions			
Fuel expenses		111,232	100,873
Wages and payroll taxes		65,448	53,387
Purchased power		50,018	33,502
Depreciation and amortisation	8	53,853	50,603
Repairs and maintenance		30,456	25,423
Taxes other than on income		22,793	24,162
Other materials		16,913	18,604
Social expenditures		4,901	5,943
Doubtful debtors (release) / expense		(8,180)	1,934
Loss on disposal of fixed assets and investments		828	461
Other expenses, net	5	40,930	27,230
Total costs and other deductions		**389,192**	**342,122**
Income from operations		**10,862**	**9,480**
Share of income / (loss) of associates	9	592	(1,094)
Gain arising in Czech transactions	1	15,083	-
Monetary effects and financing items	23	32,958	14,226
Income before taxation		**59,495**	**22,612**
Total tax charge	16	(4,324)	(21,480)
Income before minority interest		**55,171**	**1,132**
Minority interest: share of net result	15	(13,475)	(546)
Net income		**41,696**	**586**
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	24	0.98	0.01

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

26 June 2002

RAO UES Group

Consolidated Cash Flow Statement for the year ended 31 December 2001

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

	Year ended 31 December 2001	Year ended 31 December 2000
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before taxation	**59,495**	**22,612**
Adjustments to reconcile income before taxation to net cash provided by operations:		
Depreciation and amortisation	53,853	50,603
Doubtful debtors (release) / expense	(8,180)	1,934
Interest expense and gain on restructuring accounts payable and taxes payable	(18,150)	3,199
Discount on low interest loans in Czech transactions	1,380	-
Share of (income) / loss of associates, before tax	(592)	1,094
Loss on disposal of fixed assets and investments	828	461
Monetary effects on non-operating balances	(1,904)	(4,067)
Adjustment for non-cash investing activities	(7,739)	(42,232)
Other	48	5
Operating income before working capital changes and profits tax paid	**79,039**	**33,609**
Working capital changes:		
Decrease in accounts receivable and prepayments	31,965	38,827
Decrease / (increase) in other current assets	2,178	(4,228)
Increase in loans issued	(14,705)	-
Decrease / (increase) in inventories	3,490	(3,272)
Increase in other non-current assets	(3,995)	-
Decrease in accounts payable and accrued charges	(59,897)	(32,103)
Decrease in taxes payable, other than profits tax	(40,096)	(1,954)
Increase / (decrease) in other non-current liabilities	16,403	(1,520)
Profits tax paid (cash)	(24,614)	(11,904)
Profits tax paid (non-cash)	(502)	(2,612)
Net cash (used for) / provided by operating activities	**(10,734)**	**14,843**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(17,053)	(6,024)
Proceeds from sale of property, plant and equipment	164	1,088
Purchases of investments, net	(117)	(6,008)
Net cash used for investing activities	**(17,006)**	**(10,944)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	98,639	50,438
Proceeds from issuance of non-current debt	20,083	9,949
Reduction of debt	(85,854)	(55,569)
Effect of inflation on financing activities	4,731	4,339
Interest paid	(2,640)	(3,209)
Dividends paid	(1,717)	(2,041)
Sale / (purchase) of treasury shares	1	(28)
Net cash provided by financing activities	**33,243**	**3,879**
Effect of inflation on cash and cash equivalents	(1,895)	(1,107)
Increase in cash and cash equivalents	**3,608**	**6,671**
Cash and cash equivalents at the beginning of the period	**9,034**	**2,363**
Cash and cash equivalents at the end of the period	**12,642**	**9,034**

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

26 June 2002

RAO UES Group

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

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

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and fair value reserve	Total shareholders' equity
At 1 January 2000	128,074	6,660	(635)	289,120	423,219
Net income	-	-	-	586	586
Dividends	-	-	-	(804)	(804)
Other (see Note 5)	-	-	-	1,924	1,924
Change in treasury shares, net	-	-	(28)	-	(28)
At 31 December 2000	128,074	6,660	(663)	290,826	424,897
At 31 December 2000, as previously reported	128,074	6,660	(663)	290,826	424,897
Adoption of IAS 39 (see Note 3)	-	-	-	(2,291)	(2,291)
At 31 December 2000, as adjusted	128,074	6,660	(663)	288,535	422,606
Net income	-	-	-	41,696	41,696
Dividends	-	-	-	(1,026)	(1,026)
Change in fair value of available-for-sale investments	-	-	-	534	534
Change in treasury shares, net	-	-	1	-	1
At 31 December 2001	128,074	6,660	(662)	329,739	463,811

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

26 June 2002

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 31 December 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 transmission:*** The high voltage transmission network connects all but a few 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.

At 31 December 2001, the number of employees of the Group was approximately 685,000 (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 and current regulation. At 31 December 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 14, 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 both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. 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 described above and in Notes 2 and 26, the government's economic, social and other policies could have material effects on the operations of the Group.

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;
- extensive currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- high inflation.

Note 1: The Group and its operations (continued)

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

Transactions related to the repayment of Russian Federation debt to the Czech Republic. During December 2001 the Group entered into a series of transactions in which it participated in the settlement of Russian Federation debt ("RF debt") to the Czech Republic (the “Czech transactions”). By agreement, the Ministry of Finance of the Russian Federation ("MinFin") transferred to the Group its obligations regarding the RF debt in exchange for a commitment to repay such debt. The Group obtained a loan of RR 24,000 million from Sberbank (see Note 17) and then made payments totalling RR 24,250 million to the Czech Republic's formally appointed representative, Falcon Capital, to buy back the RF debt. MinFin paid RR 40,713 million to the Group upon confirmation that the RF debt had been settled and that the tax liability payments from suppliers described below had been received.

Concurrently, as part of its arrangement with MinFin, the Group issue loans to several of its major suppliers and to its subsidiaries, for RR 14,705 million and RR 26,044 million, respectively. The loans to suppliers were required to be made for one year, carry no interest, and are repayable in equal, monthly instalments through the end of 2002. As a result of the loans being issued at below market interest rates, the Group has recorded a discount of RR 1,380 million.

The loans to the subsidiaries were used to make payments to major suppliers as a settlement of a portion of the outstanding trade payables to these suppliers. The Group understands that these suppliers made equivalent payments to the state to settle their outstanding tax liabilities.

The resulting gain on the Czech transactions of RR 15,083 million is comprised of the proceeds received from MinFin, less the amount paid to Falcon Capital and the discount on the loans issued to suppliers. In addition, a tax liability of RR 3,620 million arose, which is reflected in deferred taxes.

Regulatory and sector restructuring. The power sector and the Group are presently undergoing restructuring designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise required capital to maintain and expand current capacity. Under Government Resolution No. 526 dated 11 July 2001 “On the Reform of the Russian Federation Electric Utilities”, a non-regulatory market will be set up for, initially, sales of 5-15% of the electricity generated. After 2004 all electricity generated will be sold in a competitive, wholesale market. In accordance with the “Action Plan for the 1st Stage of the Electric Utilities Reform,” approved by Government Directive No. 1040-p dated 3 August 2001, the following is being undertaken:

- Trade System Administrator (“TSA”) – in November 2001, a non-commercial partnership “Trade System Administrator of the Wholesale Electricity Market UES” was created to manage the new wholesale market. The Group controls 50% of the votes in the Supervisory Council of the TSA; the other 50% is owned by other industry participants;

- Federal Grid Company (“FSK”) – FSK was established in June 2002, as a wholly-owned subsidiary, to manage the transmission assets and operations, currently in RAO UES. These assets have not yet been transferred to FSK;

- System Operator – “OAO System Operator – Central Dispatch Unit of Unified Energy System” was established in June 2002, to control the dispatch of electricity;

- RAO UES has drafted guidelines that set out the process for establishing wholesale generation companies, including a listing of the power stations included therein. At present, ministries and government agencies of the Russian Federation are considering these guidelines. Further, consultations are being held with heads and representatives of the regions whose power stations are earmarked for integration within the wholesale generation companies. It is planned that during the summer of 2002, the Government will approve the guidelines as well as the list of included entities and the structure of the wholesale generation companies; and

Note 1: The Group and its operations (continued)

- The subsidiaries and associates of RAO UES have already taken steps to prepare for the reform of the regional generation and distribution companies. For the purpose of considering and approving these reform projects, a Project Committee for Reform under the Board of Directors of RAO UES has been established and has begun reviewing submitted reform projects.

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

Note 2: Financial condition

At 31 December 2001, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 8,738 million (31 December 2000: RR 88,676 million). During the year the Group improved its financial position, largely through better cash collections and the restructuring of trade and tax liabilities to long term. The effects of restructuring of accounts and taxes payable are described in Notes 18 and 20 - 21. However, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management continues to aggressively implement collection and restructuring efforts to reduce the outstanding balances. 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. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 December 2001. The Group has provided against doubtful debtors, as further described in Notes 10, 12.

The Group is affected by government policy through control of tariffs and other factors. The Regional Energy Commissions do not always permit tariff increases in line with increases in the Group's costs 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 do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

Group management has been taking the following actions in order to address the issues noted above and improve the Group's financial position:

- introduction of improved financial budgeting procedures; a strong focus on timely cash collection of current and old debtor balances; restructuring of liabilities for repayment over a longer period;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets; and
- active participation in the restructuring of the electricity sector (see Note 1).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group and its successors will be able to raise needed capital to sustain the business. However, there can be no assurance in this regard.

As part of its financial restructuring efforts, the Group has taken on additional long-term debt, as described in Note 1. The ability to repay this debt in accordance with its terms and to continue to meet other cash obligations will be dependent on various factors including: continued efforts to collect old outstanding debtors; further restructuring of current liabilities to long term debt; obtaining additional debt financing; and ultimately real increases in tariffs.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 3: Basis of presentation

These consolidated financial statements have been prepared in accordance with IAS.

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, and adjusted and reclassified for presentation in accordance with IAS.

The preparation of consolidated financial statements in accordance with IAS requires management to make 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 on property, plant and equipment, deferred profits taxes, allowance for doubtful debtors and fair values of financial instruments. 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 31 December 2001, and the respective conversion factors are:

Date	Index	Conversion Factor
31 December 1997	659,403	3.60
31 December 1998	1,216,400	1.95
31 December 1999	1,661,481	1.43
31 December 2000	1,995,937	1.19
31 December 2001	2,371,572	1.00

The significant guidelines followed in restating these financial statements in accordance with IAS 29 are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31 December 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2001;
- the appraisal values of property, plant and equipment and the impact of any impairment have been restated by applying relevant conversion factors beginning with the appraisal date together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2001) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of 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 16,081 million for the year 31 December 2001 (for the year ended 31 December 2000: monetary gain of RR 18,187 million) because on average the Group had net monetary liabilities during this period. Since 31 December 2001, inflation has continued.

As at 30 April 2002 the CPI was 2,531,670 (1988 = 100), representing inflation of 6.75 percent since 31 December 2001.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 3: Basis of presentation (continued)

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. The effect of adopting this standard is summarised below, and further information is disclosed in Note 4.

As prescribed by the transitional provisions of this standard comparative information was not restated. The resulting adjustments of the balances at 1 January 2001, shown below, were taken to opening retained earnings and fair value reserve.

	Total effect to items measured Increase / (decrease)	**Deferred profits tax liabilities** Increase / (decrease)	**Minority interests** Increase / (decrease)	**Retained earnings and fair value reserve** Increase / (decrease)
Available-for-sale investments	(3,228)	-	-	(3,228)
Accounts payable and taxes payable	(2,856)	972	947	937
		972	947	(2,291)

The adjustment to available-for-sale investments reflects the assessment by management of the fair value of investments on the balance sheet which were carried at cost prior to 1 January 2001. The accounts payable and taxes payable adjustment is comprised of specific amounts payable which have been renegotiated with creditors for long-term repayment.

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, they will need to be sold to raise operating capital or they mature within 12 months, 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 included on the balance sheet in other non-current assets and other current assets.

Note 4: Summary of significant accounting policies (continued)

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using 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 the 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.

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

Loans issued. Loans issued by the Group are measured at amortised cost. Amortised cost is the amount at which the loan was measured at initial recognition minus principal repayments plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment or uncollectability.

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.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") at 31 December 2001 was RR 30.14:US$ 1.00 (31 December 2000: RR 28.16:US$ 1.00). 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 Commonwealth of Independent States.

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

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

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

Note 4: Summary of significant accounting policies (continued)

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 and have a 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. 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 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 which are expected to be settled within 12 months are recorded as other current assets. These 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.

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

Note 4: Summary of significant accounting policies (continued)

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, goods have not been received or construction has not been completed 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 for the effects of inflation. 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 asset 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 taxes 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 and the fair value of the restructured payable differs by more then ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring. The amount of the discount is credited to the statement of operations (monetary effects and financing items) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

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 minority interests' 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 payment 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, excluding the average number of treasury shares held by the Group. Preference shares participate in losses.

Treasury shares. Where RAO UES or its subsidiaries purchases RAO UES's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at weighted average cost, restated for inflation as at the balance sheet date.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 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 %
Centre		
Astrakhanenergo	48.7	48.7
Belgorodenergo	49.0	65.3
Ivenergo	49.7	56.6
Kalugaenergo	49.0	49.0
Kostromaenergo	49.0	65.3
Kurskenergo	49.4	59.8
Lipetskenergo	49.0	49.0
Mosenergo	50.9	50.9
Nizhnovenergo	49.0	62.3
Orelenergo	49.5	60.6
Ryazanenergo	49.0	49.0
Smolenskenergo	48.7	59.3
Tambovenergo	49.0	56.0
Tulaenergo	49.0	49.0
Tverenergo	49.0	65.3
Vladimirenergo	49.0	49.0
Volgogradenergo	49.0	61.3
Vologdaenergo	49.0	49.0
Voronezhenergo	49.0	65.3
Yarenergo	47.8	60.3
North-West		
Arkhenergo	49.0	59.1
Bryanskenergo	49.0	65.2
Karelenergo	100.0	100.0
Kolenergo	49.2	65.5
Komienergo	50.1	50.4
Lenenergo	49.0	57.4
Novgorodenergo	49.0	62.9
Pskovenergo	49.0	49.0
Yantarenergo	100.0	100.0
Middle Volga		
Chuvashenergo	100.0	100.0
Marienergo	64.4	70.1
Mordovenergo	52.3	52.3
Penzaenergo	49.0	60.2
Samaraenergo	49.2	56.3
Saratovenergo	49.8	64.6
Ulyanovskenergo	49.0	65.3
South		
Dagenergo	51.1	51.1
Experimentalnaya TETS	77.1	100.0
Kabbalkenergo	54.4	65.6
Kalmenergo	96.4	96.4
Karachaevo-Cherkesskenergo	100.0	100.0
Kubanenergo	49.0	49.0
Rostovenergo	48.4	62.8
Sevkavkazenergo	49.0	49.0
Stavropolenergo	55.1	71.9
Ural		
Chelyabenergo	49.0	58.1
Kirovenergo	48.2	64.0
Kurganenergo	49.0	53.8
Orenburgenergo	100.0	100.0
Permenergo	49.0	64.4
Sverdlovenergo	49.0	65.3
Tumenenergo	100.0	100.0
Udmurtenergo	49.0	55.4
Siberia		
Altaienergo	54.7	72.2
Buryatenergo	47.6	47.6
Chitaenergo	49.0	62.2
Khakasenergo	100.0	100.0
Krasnoyarskenergo	51.8	66.4
Kuzbassenergo	49.0	49.0
Omskenergo	49.0	60.4
Tomskenergo	52.0	59.9
East		
Amurenergo	52.5	61.3
Dalenergo	49.0	65.3
Geotherm	62.5	62.5
Khabarovskenergo	49.0	61.0
Kolymaenergo	98.9	98.9
Kamchatskenergo	49.0	59.2
Magadanenergo	49.0	64.4
Sakhalinenergo	49.0	49.0
Sakhaenergo	49.0	100.0
Yakutskenergo	49.0	58.1

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	77.0	78.4	Taimyrenergo	100.0	100.0
Kabbalk GES	76.2	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.1
Kaskad Verhnevolzhskih GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Sayano-Shushenskaya GES	78.9	82.8	Zaramagskie GES	89.3	91.9
Sulakenergo	99.0	99.0	Zeiskaya GES	56.9	72.5
			Zelenchugskie GES	97.3	97.3

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	Centre for Assistance in Restructuring Electricity Sector	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.

During 2000, the Group regained control over its subsidiary Kuzbassenergo, as the result of the cessation of bankruptcy proceedings. Previously this entity was recorded as a cost investment. Since regaining control this entity has been consolidated into the Group. As a consequence of regaining control over Kuzbassenergo a gain of RR 5,567 million, being the difference between the Group's share of net assets and the cost of the investment, has been reflected within other expenses, net in the statement of operations.

Note 5: Principal subsidiaries (continued)

RAO UES holds voting interests of 66.4 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.

In 2000, RAO UES transferred two thermal power stations to Mosenergo in exchange for shares in a new share issue. As a result RAO UES increased both its ownership and voting interest in Mosenergo from 47.5 percent to 50.9 percent. A surplus of RR 1,924 million, being the difference between the increase in the Group's share of the net assets of Mosenergo and the cost of the thermal power stations transferred, was reflected within the statement of changes in shareholders' equity.

In August 2001, the Group acquired a controlling interest in OOO Media-Holding REN-TV, an entity which holds television broadcasting equipment and licenses. This investment was acquired and held exclusively with a view to its subsequent disposal in the near future. Accordingly, it has not been consolidated and is classified as an available-for-sale investment in other current assets.

During the period ended 31 December 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 stand-alone 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 31 December 2001, except as disclosed)

Note 6: Segment information (continued)

Year ended 31 December 2001	**RAO UES**	**Energos**	**Hydro and thermal generating stations**	**Construction**	**Consolidation adjustments**	**Total**
Revenues	42,410	386,759	40,054	4,201	-	473,424
Inter-group revenues	(29,602)	(5,509)	(34,804)	(3,455)	-	(73,370)
Total revenues	12,808	381,250	5,250	746		400,054
Segment income / (loss)	14,891	(763)	(2,525)	(691)	(50)	10,862
Share of income of associates	-	592	-	-	-	592
Gain arising in Czech transactions						15,083
Monetary effects and financing items						32,958
Income before taxation						59,495
Total tax charge						(4,324)
Income before minority interest						55,171
Minority interest: share of net result						(13,475)
Net income						41,696
Capital expenditures	7,099	25,230	7,186	824	-	40,339
Depreciation and amortisation	9,115	38,959	5,673	106	-	53,853
Doubtful debtors expense / (release)	617	(7,475)	(1,587)	265	-	(8,180)
As at 31 December 2001						
Segment total assets	370,038	658,174	113,438	9,747	(209,332)	942,065
Associates	-	4,859	-	-	-	4,859
Total assets	370,038	663,033	113,438	9,747	(209,332)	946,924
Segment liabilities	71,456	215,491	42,610	3,224	(41,036)	291,745

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 6: Segment information (continued)

Year ended 31 December 2000	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	29,848	339,022	38,114	1,486	-	408,470
Inter-group revenues	(20,340)	(7,335)	(29,193)	-	-	(56,868)
Total revenues	9,508	331,687	8,921	1,486	-	351,602
Segment income / (loss)	4,167	14	(2,370)	324	7,345	9,480
Share of loss of associates	-	(1,094)	-	-	-	(1,094)
Monetary effects and financing items						14,226
Income before taxation						22,612
Total tax charge						(21,480)
Income before minority interest						1,132
Minority interest: share of net result						(546)
Net income						586
Capital expenditures	4,257	26,917	7,274	727	-	39,175
Depreciation and amortisation	8,955	36,391	5,165	92	-	50,603
Doubtful debtors expense / (release)	362	2,058	(449)	59	(96)	1,934
As at 31 December 2000						
Segment total assets	328,114	695,674	123,787	8,715	(180,886)	975,404
Associates	-	4,336	-	138	-	4,474
Total assets	328,114	700,010	123,787	8,853	(180,886)	979,878
Segment liabilities	56,356	297,364	55,522	2,770	(34,970)	377,042

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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 6: Segment information (continued)

	Revenue		Total assets		Capital expenditure	
	Year ended 31 December 2001	Year ended 31 December 2000	31 December 2001	31 December 2000	Year ended 31 December 2001	Year ended 31 December 2000
RAO UES segment	42,410	29,848	370,038	328,114	7,099	4,257
Centre	133,260	121,568	240,008	255,463	8,901	9,899
North-West	45,372	38,212	64,518	75,733	4,744	5,333
Urals	96,533	93,334	173,696	182,417	5,751	6,536
Siberia	51,008	36,814	109,314	107,253	4,618	3,745
Mid-Volga	30,370	29,819	52,660	56,619	1,292	2,246
East	41,916	29,307	87,247	94,670	5,246	4,198
South	32,555	29,568	58,775	60,495	2,688	2,961
	473,424	408,470	1,156,256	1,160,764	40,339	39,175
Consolidation adjustments	(73,370)	(56,868)	(209,332)	(180,886)	-	-
Total	400,054	351,602	946,924	979,878	40,339	39,175

Note 7: Related parties

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

	Year ended 31 December 2001	Year ended 31 December 2000
Electricity revenues	89	1,011
Purchased power	199	862
Transmission fee income	519	1,496
Rental fee income	40	55

Directors' compensation. Compensation is paid to members of the management board of RAO UES for their services in full time management positions. The compensation 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 60 million for the year ended 31 December 2001 (2000: RR 71 million). 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 25).

Eurofinance. Eurofinance is a financial organisation which provides services to the Group. These services include the collection of accounts receivable balances, the provision of short-term loans, and the purchase and sale of promissory notes. A member of the management board of RAO UES was elected to the Supervisory Board of Eurofinance, although he did not give his concurrence for such election, and the RAO UES Board of Directors has not authorized his participation in the managing bodies of Eurofinance; as a result he was not entitled to and did not participate in Eurofinance's Supervisory Board.

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Note 7: Related parties (continued)

The commission and the interest charged by Eurofinance to RAO UES was RR 61 million the year ended 31 December 2001 (2000: RR 64 million). Commission and interest approximate market rates. As at 31 December 2001 RAO UES did not hold promissory notes of Eurofinance (31 December 2000: RR 993 million). The balance outstanding due to RAO UES from Eurofinance was RR 286 million and RR 209 million as at 31 December 2001 and 31 December 2000, respectively.

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	578,172	181,866	591,902	104,911	228,259	188,810	1,873,920
Additions	846	93	269	329	35,880	2,922	40,339
Transfers	21,253	1,932	6,829	2,182	(48,361)	16,165	-
Disposals	(3,459)	(1,944)	(5,033)	(842)	(5,434)	(5,026)	(21,738)
Closing balance as at 31 December 2001	596,812	181,947	593,967	106,580	210,344	202,871	1,892,521
Accumulated depreciation							
Opening balance as at 31 December 2000	(350,166)	(87,566)	(399,520)	(66,083)	(77,581)	(117,248)	(1,098,164)
Charge for the period	(13,482)	(6,237)	(14,564)	(3,802)	-	(15,768)	(53,853)
Transfers	(4,990)	(700)	(20)	(3,398)	17,238	(8,130)	-
Disposals	3,114	1,933	5,029	699	2,902	4,610	18,287
Closing balance as at 31 December 2001	(365,524)	(92,570)	(409,075)	(72,584)	(57,441)	(136,536)	(1,133,730)
Net book value as at 31 December 2001	231,288	89,377	184,892	33,996	152,903	66,335	758,791
Net book value as at 31 December 2000	228,006	94,300	192,382	38,828	150,678	71,562	775,756

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.

Depreciation is charged once an asset is available for service.

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

A 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:

	Year ended 31 December 2001	Year ended 31 December 2000
Non-cash acquisitions	9,129	30,950
Non-cash proceeds from the sale of property, plant and equipment	2,459	3,764

The majority of the 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 31 December 2001, except as disclosed)

Note 8: Property, plant and equipment (continued)

Impairment. For the period ended 31 December 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. The impairment provision included in the accumulated depreciation balance as at 31 December 2001 is RR 719,876 million.

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 the Russian Federation.

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 Group in such enterprises. All associated enterprises are incorporated and operate in Russia.

	31 December 2001		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	3,072	1,264	138	4,474
Share of income / (loss) of associates	731	(1)	(138)	592
Share of associates' tax (charge) / benefit	(215)	8	-	(207)
Carrying value as at 31 December 2001	3,588	1,271	-	4,859

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 31 December 2001.

Note 10. Other non-current assets

	31 December 2001	31 December 2000
Available-for-sale investments	13,817	21,788
Restructured trade receivables, (Net of allowance for doubtful debtors of RR 9,924 million as at 31 December 2001)	3,863	-
Advances to contractors	5,614	4,150
Other	916	1,251
	24,210	27,189

Certain trade receivables were restructured during the period and as a result are due to be realised more than one year from the balance sheet date. The loss on restructuring is included in doubtful debtors expense.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 11: Cash and cash equivalents

	31 December 2001	31 December 2000
Cash at bank and in hand	12,527	7,558
Cash equivalents	-	1,380
Foreign currency accounts	115	83
Restricted cash	-	13
	12,642	9,034

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

Note 12: Accounts receivable and prepayments

	31 December 2001	31 December 2000
Trade receivables (Net of allowance for doubtful debtors of RR 49,738 million as at 31 December 2001 and RR 91,756 million as at 31 December 2000)	44,394	63,219
Value added tax recoverable	16,367	21,908
Other receivables (Net of allowance for doubtful debtors of RR 5,901 million as at 31 December 2001 and RR 7,728 million as at 31 December 2000)	18,888	16,658
Advances to suppliers	8,284	10,878
Receivables from associates	550	1,098
Prepayments	2,423	930
	90,906	114,691

Management has determined the allowances for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 20 - 22 percent have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements.

For the year ended 31 December 2001, approximately 26 percent (year ended 31 December 2000: 37 percent) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Accounts receivable and prepayments are stated at fair value.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 13: Inventories

	31 December 2001	31 December 2000
Fuel production stocks	11,915	9,113
Materials and supplies	23,398	29,532
Other inventories	2,115	2,273
	37,428	40,918

The above inventory balances are recorded net of an obsolescence provision of RR 2,507 million and RR 2,103 million as at 31 December 2001 and 31 December 2000, respectively.

Note 14: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	31 December 2001	31 December 2000
Ordinary shares	41,041,753,984	128,074	128,074
Preference shares	2,075,149,384	6,660	6,660
		134,734	134,734

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.

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of net statutory profit. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' 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.

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.

Dividends. 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 2001, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 12,776 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 0.0240 per ordinary share (RR 0.0200 per ordinary share uninflated) (in 2000 in respect of 1999: RR 0.0187 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0877 per preference share (RR 0.0738 per preference share uninflated) (in 2000 in respect of 1999: RR 0.0524 per preference share, RR 0.0367 per preference share uninflated). Preference dividends outstanding were RR 21 million as at 31 December 2001 (31 December 2000: RR 19 million).

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 14: Shareholders' equity (continued)

A dividend was recommended by the Board of Directors of RAO UES in 2002 in respect of the year ended 31 December 2001 of RR 0.0260 per ordinary share and RR 0.1185 per preference share.

Fair value reserve. The fair value reserve relating to the changes in the fair value of available-for-sale investments at 31 December 2001 was a debit of RR 2,694 million (31 December 2000: nil), and is included in retained earnings and fair value reserve.

Treasury shares. Treasury shares as at 31 December 2001 represent 399,883,789 (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 31 December 2001
Ordinary shares	611	(1)	610
Preference shares	52	-	52
	663	(1)	662

Note 15: Minority interests

	31 December 2001	31 December 2000
Opening balance	177,939	164,002
Adoption of IAS 39 (see Note 3)	947	-
Share of net result	13,475	546
Acquisitions and changes in Group structure (see Note 5)	47	13,742
Dividends	(1,040)	(351)
Closing balance	191,368	177,939

Note 16: Taxes

Tax expense

	Year ended 31 December 2001	Year ended 31 December 2000
Current profits tax charge	(22,215)	(16,656)
Deferred profits tax (charge) / benefit	(12,386)	10,121
Effect of reduction / (increase) in tax rate on deferred taxes	30,484	(13,419)
Share of associate tax charge (see Note 9)	(207)	(1,526)
Total tax charge	(4,324)	(21,480)

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. As a result of the changes in the Russian tax legislation which were enacted in August 2001, effective 1 January 2002, the profit tax rate has been changed to 24 percent.

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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 16: Taxes (continued)

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

	Year ended 31 December 2001	Year ended 31 December 2000
Income before taxation	59,495	22,612
Theoretical tax charge at an average statutory tax rate of 35% (2000: 30%)	(20,823)	(6,783)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Net non-deductible expenses	(5,160)	(5,285)
Non-temporary elements of monetary gains / losses	(38,724)	(33,830)
Doubtful debtors expense	2,863	(901)
Tax interest and penalties	(6,281)	(1,350)
Inflation effect on deferred tax balance at beginning of the period	15,156	14,367
Effect of reduction / (increase) in tax rate on deferred taxes	30,484	(13,419)
Temporary difference on statutory revaluation of tax base	5,870	17,205
Non-recognised deferred tax assets movements	10,019	11,893
Other	2,272	(3,377)
Total tax charge	(4,324)	(21,480)

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).

Deferred profits tax. 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. Deferred tax assets and liabilities are measured at 24%, the rate applicable when the asset or liability will reverse.

Deferred profits tax liability

	31 December 2001	Movement for the period	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Trade receivables	730	(5,154)	(2,237)	-	8,121
Property, plant and equipment	68,486	7,704	(28,199)	-	88,981
Accounts payable	9,603	8,989	(114)	972	(244)
Inventories	(500)	217	142	-	(859)
Other	240	630	(76)	-	(314)
	78,559	12,386	(30,484)	972	95,685

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 16: Taxes (continued)

Deferred profits tax asset

	31 December 2001	Movement for the period	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Trade receivables	510	377	129	-	4
Property, plant and equipment	11,092	(5,005)	(3,771)	-	19,868
Accounts payable	(1,428)	(1,549)	46	-	75
Inventories	198	115	(3)	-	86
Other	406	(270)	(88)	-	764
	10,778	(6,332)	(3,687)	-	20,797
Less non-recognised deferred tax asset	(10,778)	6,332	3,687	-	(20,797)
	-	-	-	-	-

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

Note 17: Non-current debt

	Currency	Effective interest rate	Due	31 December 2001	31 December 2000
Central and regional government loans	RR	21% - 35%	2002 and thereafter	2,317	3,619
Central and regional government loans	US$	7,5%	2003 and thereafter	2,250	-
Eurobond	US$	8%	2002	4,546	5,195
Bonds issued by subsidiaries	RR / US$ *	8%	2003	3,715	4,105
Bonds – RAO UES	RR / US$ *	7%	2002-2003	3,214	3,564
Bank debt in foreign banks	Euro	8% - 10%	2002 and thereafter	1,355	1,337
Bank debt in Russian banks	Euro	8% - 10%	2002 and thereafter	155	312
Bank debt in Russian banks	RR**	20% - 35%	2002 and thereafter	24,350	856
Other long-term debt				651	615
Total non-current debt				42,553	19,603
Less: current portion of non-current debt				(19,140)	(4,948)
				23,413	14,655

* For both interest payments and the redemption of these bonds, the Russian Rouble amount is adjusted to reflect any currency movements between the Russian Rouble and the US$ from the date of issuance of the bonds.

** In December 2001 the Group received a RR 24,000 million loan from Sberbank. The loan is payable in equal monthly instalments of RR 2,667 million through 2004. The loan interest is fixed at 20% until April 1, 2002; thereafter, the annual interest rate varies and is 20% if RAO UES maintains a balance greater than RR 800 million with Sberbank, and 22.5% if the RAO UES's balance is below RR 800 million.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 17: Non-current debt (continued)

Maturity table.	31 December 2001	31 December 2000
Due for repayment		
Between one and two years	16,928	1,552
Between two and five years	3,713	12,525
After 5 years	2,772	578
	23,413	14,655

The majority of the above bank debt is obtained at a variable interest rate.

The effective interest rate represents the market interest rate applicable to the loan at the date of its origination.

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 non-current debt was RR 41,612 million, which is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

Note 18: Other non-current liabilities

	31 December 2001	31 December 2000
Taxes payable	22,853	-
Trade payables	5,467	-
Other	1,531	5,567
Total other non-current liabilities	29,851	5,567
Less: current portion of restructured liabilities	(7,880)	-
	21,971	5,567

In accordance with Government Resolution No. 1002 dated 3 September 1999 most members of the Group have restructured taxes including fines and interest to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the tax payables becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to 5 years. Based on the contractual dates of repayment, discount rates of 21 - 24 percent have been used in the estimate of the fair value of these liabilities.

The discounting of the restructured payable amounts gives rise to a gain, as disclosed in Note 23.

The maturity profile is as follows:

	31 December 2001	31 December 2000
Between one and two years	9,925	5,567
Between two and five years	7,084	-
After 5 years	4,962	-
	21,971	5,567

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 19: Current debt and current portion of non-current debt

	Effective interest rate	31 December 2001	31 December 2000
Current debt	19% - 35%	15,660	9,082
Current portion of non-current debt		19,140	4,948
		34,800	14,030

Note 20: Accounts payable and accrued charges

	31 December 2001	31 December 2000
Trade payables	55,530	105,202
Current portion of trade payables restructured to long-term	3,451	-
Accrued liabilities and other creditors	28,201	27,730
Bills of exchange payable	778	2,702
Payables to associates	65	62
Dividends payable	870	519
	88,895	136,215

In the year ended 31 December 2001, approximately 27 percent (31 December 2000: 48 percent) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Restructured trade payables which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18. The details of the gain on restructuring the trade payables is included in Note 23.

Note 21: Taxes payable

	31 December 2001	31 December 2000
Fines and interest	12,690	34,488
Value added tax	12,243	39,026
Turnover taxes	5,875	12,848
Employee taxes	2,702	7,911
Profits tax	3,130	7,262
Property tax	1,833	2,262
Other taxes	1,205	7,093
Current portion of taxes restructured to long-term	4,429	-
	44,107	110,890

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 8,970 million (31 December 2000: RR 11,933 million); and
- in Turnover taxes – RR 692 million (31 December 2000: RR 866 million).

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 21: Taxes payable (continued)

Restructured taxes including fines and interest, which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18. The gain in restructuring the taxes payable is included in Note 23.

Since 31 December 2001 Group entities have restructured a further RR 9,543 million of the balances above.

For the year ended 31 December 2001, approximately 2 percent (31 December 2000: 18 percent) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 22: Governmental assistance

During the year ended 31 December 2001 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 2,133 million (31 December 2000: RR 2,973 million), for certain entities in the Far East region and RR 1,164 million (31 December 2000: RR 720 million) for other Group entities. The assistance in respect of these periods has been recorded as revenue to the statement of operations.

Note 23: Monetary effects and financing items

	Year ended 31 December 2001	Year ended 31 December 2000
Monetary gain	16,081	18,187
Interest expense	(8,279)	(3,199)
Foreign exchange loss	(1,273)	(762)
Gain on restructuring accounts payable and taxes payable	26,429	-
	32,958	14,226

The discounting of the restructured payable amounts gives rise to a gain. The discount is amortized over the period of the restructuring as an expense; RR 3,912 million (2000: Nil) is included in interest expense above. The information on the restructuring of the accounts payable and taxes payable is contained in Notes 18 and 20 - 21.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001, except as disclosed)

Note 24: Earnings per share

	Year ended 31 December 2001	Year ended 31 December 2000
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(417,921)	(415,934)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,698,982	42,700,969
Net income	41,696	586
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	0.98	0.01

Note 25: Commitments

Sales commitments. The Group entered into two export contracts with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo, and one contract with Pohjolan Voima Oy. One contract with Fortum is for the supply of a minimum of 1.6 million MWh of electricity per year, at prices between Euro 12.15 and Euro 20.50 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.

The contract with Pohjolan Voima Oy is for the supply of a minimum of 2.7 million MWh of electricity per year, at prices between Euro 16.20 and Euro 16.70 per MWh. This contract expires at the end of 2004.

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 January 2002 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 regulatory prices, published inflation indices and 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 38,098 million at 31 December 2001 and RR 27,086 million at 31 December 2000.

Note 26: 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.

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 27: 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.

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 to foreign currency denominated sales and purchase commitments, as disclosed in Note 25, and foreign currency denominated debt and Russian Rouble denominated debt linked to US Dollar currency movements, as disclosed in Note 17.

Interest rate risk. As discussed in Note 17 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. Assets are generally non-interest bearing.

Note 28: Subsequent events

Loan. After the balance sheet date, the Group obtained a Euro 100 million loan from the European Bank for Reconstruction and Development ("EBRD"). The loan is secured by export sales of the Group, the proceeds of which are restricted for the repayment of the loan. In addition, the Group must maintain insurance on a portion of its transmission assets, as well as meet certain financial covenants. The stated interest rate for the loan is the European Central Bank interbank rate plus 4.125%. Interest and a portion of the principal are repayable semi-annually up to the expiry of the loan in 2005.