RAO UES GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2002

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders and Board of Directors of the Russian Open Joint Stock Company for Energy and Electrification 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 2002, and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements, set out on pages 1 through 31, 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 2002, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

Moscow, Russian Federation

6 June 2003

RAO UES Group

Consolidated Balance Sheet as at 31 December 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002)

	Notes	31 December 2002	31 December 2001
Assets			
Non-current assets			
Property, plant and equipment	8	863,688	873,520
Investments in associates	9	-	5,594
Deferred profit tax assets	16	9,122	-
Other non-current assets	10	25,342	28,603
Total non-current assets		**898,152**	**907,717**
Current assets			
Cash and cash equivalents	11	17,569	14,553
Accounts receivable and prepayments	12	92,971	103,919
Inventories	13	38,383	43,087
Loans issued	1	2,635	15,340
Other current assets		11,726	5,482
Total current assets		**163,284**	**182,381**
Total assets	6	**1,061,436**	**1,090,098**
Shareholders' equity and liabilities			
Shareholders' equity	14		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
Treasury shares		(770)	(762)
		154,336	154,344
Retained earnings and fair value reserve		412,079	379,596
Total shareholders' equity		**566,415**	**533,940**
Minority interest	15	**223,981**	**220,302**
Non-current liabilities			
Deferred profit tax liabilities	16	54,608	90,437
Non-current debt	17	13,461	26,952
Other non-current liabilities	18	26,872	25,293
Total non-current liabilities		**94,941**	**142,682**
Current liabilities			
Current debt and current portion of non-current debt	19	42,236	40,062
Accounts payable and accrued charges	20	84,337	102,336
Taxes payable	21	49,526	50,776
Total current liabilities		**176,099**	**193,174**
Total liabilities	6	**271,040**	**335,856**
Total shareholders' equity and liabilities		**1,061,436**	**1,090,098**

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

6 June 2003

The accompanying notes are an integral part of these consolidated interim financial statements.

RAO UES Group

Consolidated Statement of Operations for the year ended 31 December 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002)

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
Revenues			
Electricity		377,766	340,530
Heating		87,946	83,183
Governmental assistance	22	5,370	4,168
Other		32,327	32,662
Total revenues	6	**503,409**	**460,543**
Costs and other deductions			
Fuel expenses		133,579	127,805
Wages, benefits and payroll taxes		88,290	78,656
Depreciation and amortisation	8	59,171	61,996
Purchased power		61,439	57,394
Repairs and maintenance		37,124	36,087
Taxes other than on income		23,613	27,029
Other materials		15,349	16,676
Social expenditures		5,299	7,183
Water usage expenses		4,632	3,447
Doubtful debtors expense / (release)	21	12,113	(9,417)
(Gain) / loss on disposal of fixed assets and investments		(150)	953
Other expenses		44,650	40,229
Total costs and other deductions		**485,109**	**448,038**
Income from operations	6	**18,300**	**12,505**
Share of income of associates	9	237	682
Gain arising on Czech transactions	1	-	18,952
Monetary effects and financing items	23	(3,973)	36,353
Income before profit tax and minority interest		**14,564**	**68,492**
Total profit tax benefit (charge)	16	24,283	(4,978)
Income before minority interest		**38,847**	**63,514**
Minority interest: share of net result	15	(3,853)	(15,512)
Net income		**34,994**	**48,002**
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	24	0.82	1.12

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

6 June 2003

RAO UES Group

Consolidated Cash Flow Statement for the year ended 31 December 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002)

	Year ended 31 December 2002	Year ended 31 December 2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before profit tax	14,564	68,492
Adjustments to reconcile income before profit tax to net cash provided by operations:		
Depreciation and amortisation	59,171	61,996
Doubtful debtors expense / (release)	12,113	(9,417)
Interest and gain on restructuring accounts payable and taxes payable	11,318	(19,305)
Share of income of associates, before profit tax	(237)	(682)
(Gain) / loss on disposal of fixed assets and investments	(150)	953
Monetary effects on non-operating balances	(4,624)	(2,192)
Adjustment for non-cash investing activities	(9,851)	(9,147)
Other	7	54
Operating cash flows before working capital changes and profit tax paid	**82,311**	**90,752**
Working capital changes:		
(Increase) / decrease in accounts receivable and prepayments	(1,165)	37,530
(Increase) / decrease in other current assets	(6,243)	2,507
Decrease / (increase) in loans issued	12,705	(16,928)
Decrease in inventories	4,704	4,018
Decrease / (increase) in other non-current assets	6,398	(5,331)
Decrease in accounts payable and accrued charges	(17,769)	(68,953)
Decrease in taxes payable, other than profits tax	(4,539)	(46,159)
Increase in other non-current liabilities	1,579	18,883
Profit tax paid (cash)	(19,086)	(28,336)
Profit tax paid (non-cash)	(390)	(578)
Net cash provided by / (used for) operating activities	**58,505**	**(12,595)**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(40,830)	(19,631)
Proceeds from sale of property, plant and equipment	2,221	189
Purchases of investments, net	(429)	(310)
Net cash used for investing activities	**(39,038)**	**(19,752)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	135,459	113,553
Proceeds from issuance of non-current debt	9,688	23,120
Repayment of debt	(147,822)	(93,389)
Interest paid	(9,094)	(3,039)
Dividends paid to RAO UES shareholders	(1,347)	(793)
Dividends paid by Group to minority interest shareholders	(1,942)	(1,184)
Proceeds from share issuance	899	413
Purchase of treasury shares, net	(8)	1
Net cash (used for) / provided by financing activities	**(14,167)**	**38,682**
Effect of inflation on cash and cash equivalents	(2,284)	(2,182)
Increase in cash and cash equivalents	**3,016**	**4,153**
Cash and cash equivalents at the beginning of the period	**14,553**	**10,400**
Cash and cash equivalents at the end of the period	**17,569**	**14,553**

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

6 June 2003

RAO UES Group

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and fair value reserve	Total shareholders' equity
At 31 December 2000, as previously reported	147,439	7,667	(763)	334,799	489,142
Adoption of IAS 39 (see Note 3)	-	-	-	(2,637)	(2,637)
At 31 December 2000, as adjusted	147,439	7,667	(763)	332,162	486,505
Net income	-	-	-	48,002	48,002
Dividends	-	-	-	(1,182)	(1,182)
Change in fair value of available-for-sale investments	-	-	-	614	614
Change in treasury shares	-	-	1	-	1
At 31 December 2001	147,439	7,667	(762)	379,596	533,940
At 1 January 2002	147,439	7,667	(762)	379,596	533,940
Net income	-	-	-	34,994	34,994
Dividends	-	-	-	(1,385)	(1,385)
Change in fair value of available-for-sale investments	-	-	-	(1,126)	(1,126)
Change in treasury shares, net	-	-	(8)	-	(8)
At 31 December 2002	147,439	7,667	(770)	412,079	566,415

Chairman of the Management Board — Chubais A.B.

Finance Director — Zhurba D.G.

6 June 2003

Note 1: The Group and its operations

The Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("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 as at 31 December 2002. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Dispatch Centre ("CDC") and Regional Dispatch 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 charges a transmission fee to users of the network and, together with the Federal Grid Company (a 100 percent owned subsidiary of RAO UES), maintains this network. The CDC, a 100 percent owned subsidiary of RAO UES, is responsible for system dispatch and the functioning of the Federal Wholesale Market of Electricity and Capacity ("FOREM");

- ***Regional generation and distribution:*** RAO UES has ownership interests in more than 70 regional power companies ("Energos"), responsible for the generation, distribution and sale of heat and electricity. These ownership interests range from 14 percent to 100 percent; and

- ***Stand-alone electricity generation:*** Major generation stations produce electricity and sell it via FOREM. The majority of these sales are within the Group.

At 31 December 2002, the number of employees of the Group was approximately 622,000 (31 December 2001: 648,000).

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 Financial Reporting Standards ("IFRS").

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

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

Relations with the state and current regulation. At 31 December 2002, 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.

Note 1: The Group and its operations (continued)

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.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise the capital required to maintain and expand current capacity. The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities of the Russian Federation" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

- In April 2003, legislation underlying the electric utilities reform effort took effect. This legislative package, consisting of six laws drafted by the Russian Federation government, defines the key areas in the industry reform program, as well as the terms and conditions under which electric utilities will function both during the transition period and following the reforms.

- At the present stage, bills are being drafted for the specific legislative acts envisioned under the aforementioned laws on electric utilities reform. RAO UES has been playing an active role in drafting these pieces of legislation.

- The Federal Grid Company – OAO FGC UES ("FGC") – was established in June 2002, as a wholly-owned subsidiary of RAO UES, to manage the transmission of electricity through the use of transmission assets received or earmarked for receipt from RAO UES and its subsidiaries.

- The System Operator – OAO System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") – was established in June 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation.

- Work is underway to create a free market for electricity trading, which is envisaged to constitute from 5 to 15 percent of the Wholesale Electricity Market. In September 2002, a non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market UES" ("TSA") – began staging simulation trading in electricity. Simulation trading has been an important tool for aligning the coordination procedures between the market's key infrastructural organizations, i.e. TSA and SO-CDU, both with each other as well as with other market participants, i.e. electricity sellers and buyers. The rules for governing the wholesale market during the transition period are being developed. Moreover, future wholesale market participants are now learning how to operate in the market and are training their personnel accordingly. Ultimately, it is envisaged that the free market in electricity will encompass the entire volume of trading.

- The Board of Directors of RAO UES and the management of the Group have developed a Concept of the Group's strategy for the period from 2003 through 2008. This document provides a detailed description of the major changes that are slated to take place in the Group during the electric utilities reform program, including the various stages in the process of establishing participant entities, based on the Group, in both the wholesale and retail electricity markets, and the key areas for further development of the organizations thereby being established.

- The individual Energos that are subject to reform have developed their respective reform plans and submitted them to RAO UES. At present, these reform plans are being discussed, agreed and approved by the management bodies of RAO UES.

- The Board of Directors of RAO UES has pilot reform projects for the reorganization of four Energos (OAO Tulenergo, OAO Kalugaenergo, OAO Bryanskenergo and OAO Orelenergo) on the basis of a framework reform scenario. Further, these pilot projects will establish new companies by lines of business (a generating company, a network distribution company, and a sales company), which will incorporate the corresponding activities of the existing companies in all four pilot regions.

Note 1: The Group and its operations (continued)

At this time, the impact of the industry changes on both the financial results and position of the Group cannot be readily assessed because the specific, detailed mechanisms to effect the restructuring are still being determined. Accordingly, no provision has been recognised for the effects of the restructuring process.

Transactions related to the repayment of Russian Federation debt to the Czech Republic. In 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 contract, 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 Russian Rouble ("RR") 27,629 million (RR 24,000 million unrestated for the purchasing power of the Russian Rouble at the consolidated balance sheet date, hereinafter "unrestated") from Sberbank (see Note 17) and then made payments totaling RR 27,917 million (RR 24,250 million unrestated) to the Czech Republic's formally appointed representative, Falcon Capital, to buy back the RF debt. MinFin paid RR 46,869 million (RR 40,713 million unrestated) 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.

A gain on the Czech transactions of RR 18,952 million (RR 16,463 million unrestated) was recorded in December 2001 and was comprised of the proceeds received from MinFin, less the amount paid to Falcon Capital. The related profit tax expense of RR 4,548 million was reflected in the current profit tax charge for the year ended 31 December 2002; it was recorded as a deferred profit tax liability at 31 December 2001.

Concurrently, as part of its arrangement with MinFin, the Group issued loans to several of its major suppliers and to its subsidiaries, for RR 16,928 million (RR 14,705 million unrestated) and RR 29,982 million (RR 26,044 million unrestated), respectively. The loans to suppliers were required to be made for one year, with no interest, and repayable in equal, monthly installments through the end of 2002. As a result of the loans being issued at below market interest rates, the Group recorded a discount of RR 1,589 million (RR 1,380 million unrestated) in December 2001, within monetary effects and financing items in the consolidated statements of operations. The imputed interest recorded as a result of the amortisation of the discount for the year ended 31 December 2002 was RR 1,192 million. This does not reflect the full amount of the discount initially recorded on the loans issued because in October 2002 the repayment terms for the debt of one of the suppliers, Rosenergoatom, were extended with monthly repayments due up to August 2003.

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 those suppliers. The Group understands that the suppliers made equivalent payments to the state to settle their outstanding tax liabilities.

In March 2003, ahead of schedule, the Group fully repaid the Sberbank loan (see Note 17).

Note 2: Financial condition

At 31 December 2002, the Group's current liabilities exceeded its current assets by RR 12,815 million (31 December 2001: RR 10,793 million; 31 December 2000: RR 102,087 million). Since 2000, the Group has improved its financial position, largely through better cash collections and the restructuring of trade and tax liabilities to long term.

The effects of the restructuring of accounts and taxes payable are described in Notes 18, 20 and 21. However, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management has continued its 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 2002. The Group has provided against doubtful debtors, as further described in Notes 10 and 12.

Note 2: Financial condition (continued)

The Group is affected by government policy through control of tariffs and other factors. The RECs 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 recognised under an IFRS 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.

Note 3: Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards ("IAS") and Interpretations issued by the IASB ("IFRS").

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("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 IFRS.

The preparation of consolidated financial statements in accordance with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made 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 the purposes of IFRS presentation include the restatement for changes in the general purchasing power of the Russian Rouble in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). 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 2002, and the respective conversion factors are:

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 3: Basis of presentation (continued)

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

The significant guidelines followed in restating these 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 2002;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;
- 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 2002) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of operations and of cash flows are restated by applying appropriate conversion factors; and
- the effect of inflation on the Group's net monetary position is included in the statement of operations of the current period as a net monetary gain.

The statement of operations includes a net monetary gain of RR 9,017 million for the year ended 31 December 2002 (year ended 31 December 2001: monetary gain of RR 18,512 million) because, on average, the Group had net monetary liabilities during this period.

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

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.

The resulting adjustments of the balances at 1 January 2001, shown below, were taken to opening retained earnings and fair value reserve.

	Total effect on items measured	Deferred profit tax liabilities	Minority interests	Retained earnings and fair value reserve
Available-for-sale investments	(3,714)	-	-	(3,714)
Accounts payable and taxes payable	3,287	(1,120)	(1,090)	1,077
		(1,120)	(1,090)	(2,637)

The adjustment to available-for-sale investments reflects the assessment by management of the fair value of certain 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 had, as at 1 January 2001, 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 presumed to exist when RAO UES controls, directly or indirectly through subsidiaries, 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 exists 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 the 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.

Associated enterprises. Investments in associated enterprises are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which RAO UES is presumed to exercise significant influence but which it does not control.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in other non-current assets unless management has the 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 other 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 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.

The Group does not hold any investments held-to-maturity or for trading purposes.

Loans issued. Loans issued are 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 borrowers when the loans issued were incurred. 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 the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment.

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$") at 31 December 2002 was RR 31.78: US$ 1.00 (31 December 2001: RR 30.14: US$ 1.00). Exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 4: Summary of significant accounting policies (continued)

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed when they are either 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 2002 is stated at depreciated replacement cost, based upon values determined by a 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. The 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.

Major renewals and improvements are capitalised and the assets replaced are retired. Borrowing costs are capitalised if they are directly attributable to constructed assets. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of an 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 municipalities 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 when it is put into use. For the property, plant and equipment which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	3 - 80	20 - 80
Electricity transmission	14 - 40	25 - 40
Electricity distribution	3 - 40	25 - 40
Heating network	3 - 40	20 - 40
Other	8 - 24	10 - 40

Social assets are not capitalized as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are also 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.

Note 4: Summary of significant accounting policies (continued)

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 the consolidated interim 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.

Value added tax on purchases and sales. Value added taxes ("VAT") related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made against debtors deemed to be uncollectable bad debt expense is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is settled or until the debtor is written off for statutory accounting purposes.

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

Deferred profit tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are declared. Deferred profit tax is provided for the undistributed earnings of associated enterprises.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax which is reclaimable from the tax authorities upon the later of receipt of goods and services or the payment of the associated 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.

Note 4: Summary of significant accounting policies (continued)

Debt. Debt is recognised initially at the fair value of the proceeds received, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the 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.

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.

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

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. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2002. Any gains or losses arising on the disposal of treasury shares are recorded direct to the statement of changes in shareholders' equity.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 5: Principal subsidiaries

The following are the significant subsidiary enterprises which 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	51.3	51.3
Belgorodenergo	49.0	65.3	Experimentalnaya TETS	74.9	100.0
Bryanskenergo	49.0	49.0	Kabbalkenergo	66.4	66.4
Ivenergo	49.7	56.6	Kalmenergo	96.4	96.4
Kalugaenergo	49.0	49.0	Karachaevo-Cherkesskenergo	100.0	100.0
Kostromaenergo	49.0	49.0	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	55.1	71.9
Orelenergo	49.5	49.2			
Ryazanenergo	49.0	49.0	***Ural***		
Smolenskenergo	48.7	59.3			
Tambovenergo	49.0	49.0	Chelyabenergo	49.0	58.1
Tulenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Kurganenergo	49.0	49.0
Vladimirenergo	49.0	49.0	Orenburgenergo	100.0	100.0
Volgogradenergo	49.0	49.0	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	48.2	Udmurtenergo	49.0	55.4
North-West			***Siberia***		
Arkhenergo	49.0	49.0	Altaienergo	54.7	54.7
Karelenergo	100.0	100.0	Buryatenergo	47.6	47.6
Kolenergo	49.2	49.2	Chitaenergo	49.0	62.2
Komienergo	50.1	50.3	Khakasenergo	100.0	100.0
Lenenergo	49.0	57.4	Krasnoyarskenergo	51.8	66.2
Novgorodenergo	49.0	62.9	Kuzbassenergo	49.0	49.0
Pskovenergo	49.0	49.0	Omskenergo	49.0	49.0
Yantarenergo	100.0	100.0	Tomskenergo	52.0	59.9
Middle Volga			***East***		
Chuvashenergo	100.0	100.0	Amurenergo	53.1	53.1
Marienergo	64.4	70.1	Dalenergo	49.0	49.0
Mordovenergo	54.7	54.7	Geotherm	72.6	78.5
Nizhnovenergo	49.0	62.3	Khabarovskenergo	48.8	48.8
Penzaenergo	49.0	60.2	Kolymaenergo	93.4	93.4
Samaraenergo	49.2	56.3	Kamchatskenergo	49.0	49.0
Saratovenergo	49.8	64.6	Magadanenergo	49.0	49.0
Ulyanovskenergo	49.0	49.0	Sakhalinenergo	49.0	49.0
			Sakhaenergo	49.0	100.0
			Yakutskenergo	49.0	49.0

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	76.9	78.4	Volzhskaya GES (Volzhsk)	83.3	83.3
Kabbalk GES	82.0	98.0	Volzhskaya GES (Zhigulevsk)	85.0	85.8
Kamskaya GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zaramagskie GES	88.7	90.6
Sayano-Shushenskaya GES	78.9	82.8	Zeiskaya GES	56.9	57.4
Sulakenergo	99.2	99.2	Zelenchugskie GES	97.3	97.3
Taimyrenergo	100.0	100.0			

Thermal generating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES –1	100.0	100.0	North-West Station	53.5	60.5
Cherepetskaya GRES	55.8	55.8	Novocherkasskaya GRES	100.0	100.0
Gusinoozerskaya GRES	100.0	100.0	Pechorskaya GRES	51.0	51.0
Konakovskaya GRES	51.0	51.0	Permskaya GRES	100.0	100.0
Kostromskaya GRES	51.0	51.0	Pskovskaya GRES	50.0	50.0
Krasnoyarskaya GRES –2	100.0	100.0	Ryazanskaya GRES	100.0	100.0
Kuban GRES	79.8	99.9	Shekinskie PGU	92.1	98.9
Kaliningradskaya TETS –2	47.7	47.7	Stavropolskaya GRES	51.0	51.0
Lutek	56.3	56.3	Troitskaya GRES	100.0	100.0
Nevinomysskaya GRES	100.0	100.0			

Construction companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Boguchanskaya GES	65.4	65.4	Cherkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Zeyagesstroi	100.0	100.0

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Dispatch Centre	100.0	100.0	Inter RAO UES	100.0	100.0
Federal Grid Company	100.0	100.0	Neftianoy Dom	75.0	75.0
Insurance company LIDER	100.0	100.0	System Operator	100.0	100.0
Centre of Settlement Optimisation	100.0	100.0	Media-Holding REN-TV	70.0	70.0

The Group controls Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership.

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.

Note 5: Principal subsidiaries (continued)

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. In absence of completion of the disposal it has been consolidated with the effect from October 2002.

During the year ended 31 December 2002 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:

- ***"Transmission segment"*** this segment principally comprises RAO UES, FGC, SO-CDU and CDC, which maintain and operate the high voltage electricity transmission grid and perform electricity dispatch functions. Transmission fees are set by the FEC;

- ***"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 RECs. Certain energos have surplus generation and sell electricity via FOREM. Tariffs in FOREM are set by the FEC;

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

- ***"Unallocated"*** consists of numerous insignificant segments including construction, and export generation and sales.

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Note 6: Segment information (continued)

Year ended 31 December 2002	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	44,977	489,875	43,654	24,346	-	602,852
Intra-group revenues	(43,190)	(10,364)	(37,441)	(8,448)	-	(99,443)
Net revenues	1,787	479,511	6,213	15,898	-	503,409
Segment income / (loss)	29,206	(1,469)	(8,418)	(77)	(942)	18,300
Capital expenditures	6,397	34,682	8,122	3,208	-	52,409
Depreciation and amortisation	7,675	43,484	6,130	1,882	-	59,171
Doubtful debtors expense / (release)	398	10,092	2,242	(619)	-	12,113

Year ended 31 December 2001	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	33,971	445,238	46,110	19,687	-	545,006
Intra-group revenues	(32,470)	(6,342)	(40,066)	(5,585)	-	(84,463)
Net revenues	1,501	438,896	6,044	14,102	-	460,543
Segment income / (loss)	20,739	(878)	(2,907)	(4,391)	(58)	12,505
Capital expenditures	5,697	29,045	8,273	3,424	-	46,439
Depreciation and amortisation	7,190	44,850	6,531	3,425	-	61,996
Doubtful debtors expense / (release)	127	(8,605)	(1,827)	888	-	(9,417)

As at 31 December 2002	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	148,723	728,760	123,582	111,761	(51,390)	1,061,436
Associates	-	-	-	-	-	-
Total assets	148,723	728,760	123,582	111,761	(51,390)	1,061,436
Segment liabilities	3,157	141,351	30,517	125,919	(29,904)	271,040
Total liabilities	3,157	141,351	30,517	125,919	(29,904)	271,040

As at 31 December 2001	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	151,053	758,554	127,008	109,807	(61,918)	1,084,504
Associates	-	5,594	-	-	-	5,594
Total assets	151,053	764,148	127,008	109,807	(61,918)	1,090,098
Segment liabilities	5,879	152,420	28,977	176,944	(28,364)	335,856
Total liabilities	5,879	152,420	28,977	176,944	(28,364)	335,856

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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 Transmission segment. The transmission grid, owned by RAO UES and FGC, is located throughout the territory of the Russian Federation, but is recorded in the books of these enterprises without details of geographic location. Accordingly, it is not practicable to split these assets on a geographical basis. The Group's assets generate revenues primarily within the geographical region where they are located.

	Revenue		Total assets		Capital expenditures	
	Year ended 31 December 2002	Year ended 31 December 2001	31 December 2002	31 December 2001	Year ended 31 December 2002	Year ended 31 December 2001
Transmission segment	44,977	33,971	148,723	151,053	6,397	5,697
Centre	152,880	142,906	250,076	264,765	11,365	9,879
North-West	56,223	50,531	71,477	72,751	4,224	5,438
Urals	121,649	111,129	189,214	201,024	6,929	6,621
Siberia	64,961	58,720	121,418	127,101	6,399	5,316
Middle Volga	51,028	47,166	66,101	71,441	2,240	1,880
East	53,446	48,254	99,553	98,181	8,344	6,039
South	37,665	37,477	65,214	66,612	4,351	3,094
	582,829	530,154	1,011,776	1,052,928	50,249	43,964
Unallocated	20,023	14,852	101,050	99,088	2,160	2,475
Consolidation adjustments	(99,443)	(84,463)	(51,390)	(61,918)	-	-
Total	503,409	460,543	1,061,436	1,090,098	52,409	46,439

Nizhnovenergo, which had previously been reported within the Centre geographical region, was reclassified to the Middle Volga geographical region in accordance with the manner in which the Group reports geographical segments internally to top management. Comparative figures for these segments have been adjusted accordingly.

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 2002	Year ended 31 December 2001
Transmission fee income	733	597
Electricity revenues	226	102
Rental fee income	39	46
Purchased power expense	135	229

See Note 9 for further disclosure concerning associates.

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. The compensation is 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.

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Note 7: Related parties (continued)

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, bonuses and other payments paid to members of the Management Board by the Group, included in wages, benefits and payroll taxes in the statement of operations, amounted to RR 90 million for the year ended 31 December 2002 (year ended 31 December 2001: RR 69 million).

Eurofinance. A member of the Management Board of RAO UES was elected to the Supervisory Board of Eurofinance in 2000. RAO UES Board of Directors did not authorise his participation in the managing bodies of Eurofinance; and as a result he was not entitled to and did not participate in Eurofinance's Supervisory Board. Further, he was not re-elected to Eurofinance's Supervisory Board in April 2002 and, consequently, Eurofinance is not a related party of the Group.

The commission and the interest charged by Eurofinance to RAO UES was RR 7 million for the three months ended 31 March 2002 (for the year ended 31 December 2001: RR 73 million). Commission and interest approximate market rates.

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 2001	688,188	218,031	680,645	123,074	242,148	226,583	2,178,669
Additions	1,370	28	1,125	180	45,321	4,385	52,409
Transfers	25,429	7,687	11,977	4,032	(61,041)	11,916	-
Disposals	(3,353)	(179)	(3,366)	(1,108)	(3,986)	(3,975)	(15,967)
Closing balance as at 31 December 2002	711,634	225,567	690,381	126,178	222,442	238,909	2,215,111

Accumulated depreciation (including impairment)

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2001	(421,425)	(112,295)	(468,866)	(83,838)	(66,126)	(152,600)	(1,305,150)
Charge for the period	(15,235)	(7,675)	(16,378)	(4,659)	-	(15,224)	(59,171)
Transfers	(8,427)	(2,409)	(3,861)	(1,545)	21,255	(5,013)	-
Disposals	2,861	179	3,747	945	1,240	3,926	12,898
Closing balance as at 31 December 2002	(442,226)	(122,200)	(485,358)	(89,097)	(43,631)	(168,911)	(1,351,423)
Net book value as at 31 December 2002	269,408	103,367	205,023	37,081	178,811	69,998	863,688
Net book value as at 31 December 2001	266,763	105,736	211,780	39,236	176,022	73,983	873,520

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 8: Property, plant and equipment (continued)

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 2002	Year ended 31 December 2001
Non-cash acquisitions	11,579	10,509
Non-cash proceeds from the sale of property, plant and equipment	998	2,830

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

Impairment. For the year ended 31 December 2002, 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 2002 is RR 753,073 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

During 2002 the Group had investments in the following associated enterprises, both of which are incorporated and operate in Russia:

	31 December 2002		31 December 2001	
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	Total
Carrying value as at 31 December 2001	4,131	1,463	5,594
Share of income of associates	147	90	237
Share of associates' tax benefit	121	27	148
Transfer to non-current available-for-sale investments	(4,399)	(1,580)	(5,979)
Carrying value as at 31 December 2002	-	-	-

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 2002.

During 2002 management re-assessed the level of influence that the Group had over Bashkirenergo and Novosibirskenergo and determined that this no longer amounted to significant influence. Consequently, the investments in these companies, which had formerly been accounted for as associates have been re-classified as non-current available-for-sale investments (see Note 10).

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 10. Other non-current assets

	31 December 2002	31 December 2001
Available-for-sale investments	12,409	15,906
Advances to contractors	8,551	7,195
Restructured trade receivables (Net of allowance for doubtful debtors of RR 8,976 million as at 31 December 2002 and RR 11,425 million as at 31 December 2001)	3,633	4,448
Other	749	1,054
	25,342	28,603

Note 11: Cash and cash equivalents

	31 December 2002	31 December 2001
Cash at bank and in hand	14,457	14,421
Cash equivalent	2,802	-
Foreign currency accounts	310	132
	17,569	14,553

Cash equivalents comprise short term investments in bank promissory notes.

Note 12: Accounts receivable and prepayments

	31 December 2002	31 December 2001
Trade receivables (Net of allowance for doubtful debtors of RR 47,509 million as at 31 December 2002 and RR 57,258 million as at 31 December 2001)	37,984	51,106
Value added tax recoverable	20,392	18,842
Advances to suppliers and prepayments	13,337	11,595
Receivables from associates	-	633
Other receivables (Net of allowance for doubtful debtors of RR 5,569 as at 31 December 2002 and RR 6,793 million as at 31 December 2001)	21,258	21,743
	92,971	103,919

Management has determined the allowance 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 16 - 25 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.

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 10). The loss on restructuring is included in doubtful debtors expense.

For the year ended 31 December 2002, approximately 22 percent (the year ended 31 December 2001: 26 percent) of the Group’s accounts receivables were settled via non-cash settlements.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 13: Inventories

	31 December 2002	31 December 2001
Materials and supplies	24,980	26,936
Fuel production stocks	12,077	13,717
Other inventories	1,326	2,434
	38,383	43,087

The above inventory balances are recorded net of an obsolescence provision of RR 2,281 million and RR 2,884 million as at 31 December 2002 and 31 December 2001, respectively.

At 31 December 2002 and 31 December 2001, the inventory balance included RR 11,238 million and RR 11,927 million, respectively, of inventory pledged as collateral under loan agreements.

Note 14: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	31 December 2002	31 December 2001
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
		155,106	155,106

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. 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 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 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 percent of the voting shares of the company. The practical implications of this foreign ownership limitation for RAO UES 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 2002, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 31,427 million (unrestated). However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 14: Shareholders' equity (continued)

A dividend was declared in 2003 in respect of the year ended 31 December 2002 of RR 0.0337 per ordinary share and RR 0.2916 per preference share (unrestated).

A dividend was declared in 2002 in respect of the year ended 31 December 2001 of RR 0.0299 per ordinary share (RR 0.0260 per ordinary share unrestated) (in 2001 in respect of 2000: RR 0.0230 per ordinary share, RR 0.0200 per ordinary share unrestated) and RR 0.1364 per preference share (RR 0.1185 per preference share unrestated) (in 2001 in respect of 2000: RR 0.0850 per preference share, RR 0.0738 per preference share unrestated). Preference dividends outstanding were RR 46 million as at 31 December 2002 (31 December 2001: RR 38 million).

Fair value reserve. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 31 December 2002 was a debit of RR 4,225 million (31 December 2001: RR 3,100 million), and is included in retained earnings and fair value reserve.

Treasury shares. The Group periodically purchases and sells treasury shares. Treasury shares as at 31 December 2002 represent 400,938,211 (31 December 2001: 399,883,789) ordinary shares and 17,701,098 (31 December 2001: 17,587,446) preference shares.

	Cost as at 31 December 2001	Purchases and disposals, net	Cost as at 31 December 2002
Ordinary shares	702	7	709
Preference shares	60	1	61
	762	8	770

Note 15: Minority interest

	Year ended 31 December 2002	Year ended 31 December 2001
Opening balance, beginning of year	220,302	204,843
Adoption of IAS 39 (see Note 3)	-	1,090
Change in fair value of available-for-sale investments	(791)	-
Share of net result	3,853	15,512
Acquisitions and changes in Group structure	2,015	55
Dividends	(1,398)	(1,198)
Closing balance, end of period	223,981	220,302

Note 16: Profit tax

Profit tax expense

	Year ended 31 December 2002	Year ended 31 December 2001
Current profit tax charge	(20,816)	(25,574)
Deferred profit tax benefit / (charge)	44,951	(14,259)
Share of associate profit tax benefit / (charge) (see Note 9)	148	(238)
Effect of tax rate reduction on deferred taxes	-	35,093
Total profit tax benefit / (charge)	24,283	(4,978)

During the year ended 31 December 2001, most members of the Group were subject to profit tax rates of 35 percent on taxable profit. As a result of changes in the Russian tax legislation which were enacted in August 2001, effective 1 January 2002, the profit tax rate was changed to 24 percent.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 16: Profit tax (continued)

In the context of Russian tax legislation, tax losses in different Group companies may not be relieved against taxable profit of other Group companies. Accordingly profit tax may accrue even where there is a net consolidated tax loss.

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

	Year ended 31 December 2002	Year ended 31 December 2001
Income before profit tax	14,564	68,492
Theoretical profit charge at an average statutory tax rate of 24 percent (2001: 35 percent)	(3,495)	(23,972)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax interest and penalties	(1,002)	(7,231)
Non-temporary elements of monetary (gains) / losses	(26,626)	(44,579)
Doubtful debtors release	-	3,296
Other non-deductible expenses, net	(5,149)	(5,940)
Inflation effect on deferred tax balance at beginning of the period	11,878	17,448
Effect of tax rate reduction on deferred taxes	-	35,093
Effect of change in tax base of accounts receivable (see Note 21)	11,917	-
Effect of statutory revaluation on tax base	38,047	6,758
Non-recognised deferred tax assets movements	2,359	11,534
Other	(3,646)	2,615
Total profit tax benefit / (charge)	24,283	(4,978)

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 profit tax liabilities).

As described in Note 1, RAO UES established a wholly-owned subsidiary, Federal Grid Company ("FGC"), to hold and manage the high voltage transmission assets. The value of the property, plant and equipment transferred to FGC by RAO UES was determined by a third party valuer. This valuation is used for Russian statutory and tax accounting purposes. Consequently, included within the effect of statutory revaluation for the period to 31 December 2002 is a deferred tax benefit of RR 13,973 million in respect of the revaluation of assets transferred to FGC prior to that date.

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 16: Profit tax (continued)

Deferred profit tax liabilities

	31 December 2002	Movement for the period	31 December 2001
Trade receivables	(9,934)	(10,774)	840
Property, plant and equipment	60,453	(18,388)	78,841
Accounts payable	4,422	(6,633)	11,055
Inventories	(156)	420	(576)
Other	(177)	(454)	277
	54,608	(35,829)	90,437

Deferred profit tax assets

	31 December 2002	Movement for the period	31 December 2001
Trade receivables	4,696	4,109	587
Property, plant and equipment	15,771	3,002	12,769
Accounts payable	(1,774)	(130)	(1,644)
Inventories	41	(187)	228
Other	436	(31)	467
Deferred profit tax assets	19,170	6,763	12,407
Less non-recognised deferred tax assets	(10,048)	2,359	(12,407)
	9,122	9,122	-

Prior to 2002, the Group fully provided against the potential deferred profit tax assets as management did not believe it probable that the affected Group entities would have sufficient taxable profit in the future against which to realise the assets. However, as a result of improved expectations regarding future profitability, management now believe that it is probable that RR 9,122 of the potential asset will be realised.

Revisions to the Russian tax legislation were approved in 2002 which provide clarification of the tax law enacted as at 1 January 2002. In accordance with these revisions, statutory revaluations on property, plant and equipment of up to 30 percent of the statutory carrying value as at 1 January 2001 are deductible for profit tax purposes through depreciation. Previous revisions of the profit tax legislation did not provide clear guidance regarding the deductibility of these revaluations. Consequently, the Group had not recognised the impact resulting from these statutory revaluations until these clarifications were provided in 2002. The effect of the revaluations is to increase the tax base of property, plant and equipment, thereby decreasing the temporary differences between their carrying value for financial and tax purposes.

Deferred profit tax assets have not been recognised for the Group's unused profit tax losses either as at 31 December 2002 or 31 December 2001.

The Group has not recognized deferred tax liability in respect of RR 49,310 million (2001: RR 36,552 million) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in foreseeable future.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 17: Non-current debt

	Currency	Effective interest rate	Due	31 December 2002	31 December 2001
Central and regional government loans	US$	LIBOR + 3.0%	2003 and thereafter	2,633	2,590
Central and regional government loans	RR	21.0% - 35.0%	2002 and thereafter	927	2,667
Bonds issued by subsidiaries	RR / US$ *	8.0%	2003	4,202	4,277
Bonds – RAO UES	RR	15.0%	2005	3,000	-
Bonds – RAO UES	RR / US$ *	5.0%	2002-2003	2,231	3,700
Eurobond	US$	8.0%	2002	-	5,233
Bank debt from foreign banks	Euro	EURIBOR + 4.1%	2003-2005	2,470	-
Bank debt from foreign banks	US$	LIBOR + 4.0%	2003-2009	2,225	-
Bank debt from foreign banks	US$	LIBOR + 3.5%	2002 and thereafter	1,251	1,560
Bank debt from Russian banks	RR **	19.0% - 23.0%	2002 and thereafter	10,214	28,032
Bank debt from Russian banks	Euro	8.0% - 10.0%	2003	58	178
Other long-term debt				1,385	749
Total non-current debt				30,596	48,986
Less: current portion of non-current debt				(17,135)	(22,034)
				13,461	26,952

* 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.

** This category includes the loan described in Note 1, whereby in December 2001 the Group received a RR 27,629 million loan from Sberbank. The loan was repayable in equal quarterly instalments through 2004. The loan interest varied depending on the turnover on the RAO UES accounts in Sberbank and was equal to 19% as at 31 December 2002. RAO UES repaid the loan ahead of schedule in March 2003.

Maturity table

	31 December 2002	31 December 2001
Due for repayment		
Between one and two years	5,749	19,488
Between two and five years	6,164	4,273
After five years	1,548	3,191
	13,461	26,952

Except as otherwise noted, the majority of the above bank debt is obtained at variable interest rates.

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans and the current market rate for floating rate loans.

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 estimated fair value of total non-current debt (including the current portion) was RR 30,804 million, which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 18: Other non-current liabilities

	31 December 2002	31 December 2001
Taxes payable	29,077	26,308
Trade payables	5,007	6,294
Other	3,191	1,762
Total other non-current liabilities	37,275	34,364
Less: current portion of restructured liabilities	(10,403)	(9,071)
	26,872	25,293

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 gross amount of taxes payable including fines and interest becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to five years. Based on the contractual dates of repayment, discount rates of 21 - 25 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 2002	31 December 2001
Between one and two years	7,335	11,426
Between two and five years	10,313	8,155
After five years	9,224	5,712
	26,872	25,293

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

	Effective interest rate	31 December 2002	31 December 2001
Current debt	13.0% - 26.0%	25,101	18,028
Current portion of non-current debt		17,135	22,034
		42,236	40,062

Note 20: Accounts payable and accrued charges

	31 December 2002	31 December 2001
Trade payables	50,133	63,926
Accrued liabilities and other creditors	28,312	32,465
Bills of exchange payable	1,182	896
Dividends payable	398	1,001
Payables to associates	-	75
Current portion of trade payables and other creditors restructured to long-term	4,312	3,973
	84,337	102,336

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002, except as disclosed)

Note 20: Accounts payable and accrued charges (continued)

For the year ended 31 December 2002, approximately 17 percent (year ended 31 December 2001: 28 percent) of the Group's 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.

Accrued liabilities and other creditors as at 31 December 2002 includes an accrual of RR 1,690 mln for compensation to employees whose services are to be terminated during the course of the restructuring process. The plans, including the amount of such compensation, number of employees and the approximate timing whereby such payments will be made, have been approved by the Boards of Directors of the affected Group entities. The corresponding expense is included in wages, benefits and payroll taxes in the consolidated statement of operations for the year ended 31 December 2002.

Note 21: Taxes payable

	31 December 2002	**31 December 2001**
Value added tax	21,717	14,094
Fines and interest	8,205	14,609
Profit tax	4,396	3,603
Property tax	2,308	2,110
Employee taxes	2,602	3,111
Turnover taxes	2,029	6,763
Other taxes	2,178	1,387
Current portion of taxes restructured to long-term	6,091	5,099
	49,526	50,776

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

- in Value added tax – RR 17,325 million (31 December 2001: RR 10,327 million); and
- in Turnover taxes – nil (31 December 2001: RR 797 million).

Prior to 2002, the Group did not intend to write off certain doubtful debtors for tax reporting purposes and as a result the Group did not record a deferred profit tax asset in respect of such debtors as it was not probable that this asset would be realised. In addition, as VAT is payable when cash is collected or receivables are written off for tax reporting purposes, the VAT related to these doubtful debtors was not deemed payable and was therefore not recognized as a liability. During 2002, these positions were reconsidered by management and doubtful debts are now being written off for tax reporting purposes. Consequently, an additional deferred tax asset and an additional liability for VAT of RR 11,917 million and RR 9,911 million, respectively, have been recognized in the balance sheet as at 31 December 2002. The additional VAT was recognized as an expense within the doubtful debtors expense, and the additional deferred tax recognized as a deferred profit tax benefit (see Note 16), in the consolidated statement of operations for the year.

Substantially all accrued taxes above, excluding the amounts which have been restructured, incur interest at the refinance rate of the Central Bank of the Russian Federation. As at 31 December 2002 the refinance rate was 21 percent (31 December 2001: 25 percent). Interest does not accrue on tax fines and interest.

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.

For the year ended 31 December 2002, approximately 1 percent (year ended 31 December 2001: 2 percent) of the Group's taxes payable were settled via non-cash settlements.

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Note 22: Governmental assistance

During the year ended 31 December 2002 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 3,940 million (year ended 31 December 2001: RR 2,828 million) for certain entities in the Far East region and RR 1,430 million for the year ended 31 December 2002 (year ended 31 December 2001: RR 1,340 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 2002	Year ended 31 December 2001
Gain on restructuring accounts payable and taxes payable	6,089	30,425
Monetary gain	9,017	18,512
Imputed interest income/(discount)	1,192	(1,588)
Interest expense	(18,599)	(9,531)
Foreign exchange loss	(1,672)	(1,465)
	(3,973)	36,353

The discounting of restructured payable amounts gives rise to gains. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 8,537 million of such amortisation was included in interest expense for the year ended 31 December 2002, (year ended 31 December 2001: RR 4,503 million). Further information on the restructuring of accounts payable and taxes payable is contained in Notes 18, 20 and 21.

Imputed interest income is recorded as a result of the amortisation of the discount recognised in December 2001 on loans issued at below market interest rates. These loans issued are further discussed in Note 1.

Note 24: Earnings per share

	Year ended 31 December 2002	Year ended 31 December 2001
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)	(418,267)	(417,921)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,698,636	42,698,982
Net income	34,994	48,002
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	0.82	1.12

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.

Purchase commitment. In May 2002 the Group concluded a framework agreement with its electricity supplier, Lietovus Energiya, for the period 2002-2004. The quantity of electricity to be supplied is 6.2 mln MWh and 5.4 mln MWh for the years 2003 and 2004 respectively. The average price for the period 1 May 2002 to 1 May 2004 is fixed. The average price for the period 1 May 2004 to 31 December 2004 will be defined by an additional agreement. The Group's total purchase commitments for the period 2003-2004 amount to US$ 137 million or RR 4,358 million (nil at 31 December 2001).

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 are 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 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 44,014 million at 31 December 2002 and RR 43,860 million at 31 December 2001.

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 holds 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.

Note 26: Contingencies (continued)

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, except as otherwise noted, the majority of interest rates on remaining 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.