RAO UES GROUP
IAS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2002

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

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

1. We have audited the accompanying consolidated interim balance sheet of RAO UES and its subsidiaries (the "Group") as at 30 June 2002, the related consolidated interim statements of operations for the three and six months then ended, and the related consolidated interim statements of cash flows and of changes in shareholders' equity for the six months then ended. These consolidated interim financial statements, set out on pages 1 through 33, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated interim financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated interim financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2002, and the results of its operations for the three and six months then ended, and its cash flows for the six months then ended, in accordance with International Accounting Standards.

PricewaterhouseCoopers.

Moscow, Russian Federation

31 October 2002

RAO UES Group
Consolidated Interim Balance Sheet as at 30 June 2002
(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002)

	Notes	30 June 2002	31 December 2001
Assets			
Non-current assets			
Property, plant and equipment	8	814,787	827,917
Investments in associates	9	5,829	5,302
Other non-current assets	3,10	21,723	26,416
Total non-current assets		**842,339**	**859,635**
Current assets			
Cash and cash equivalents	11	10,110	13,794
Accounts receivable and prepayments	12	99,351	99,188
Inventories	13	37,563	40,838
Loans issued	1	9,286	14,539
Other current assets		10,832	5,197
Total current assets		**167,142**	**173,556**
Total assets	6	**1,009,481**	**1,033,191**
Shareholders' equity and liabilities			
Shareholders' equity	14		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		139,742	139,742
Preference shares (nominal value RR 1,038 million)		7,267	7,267
Treasury shares		(728)	(722)
		146,281	146,287
Retained earnings and fair value reserve		376,614	359,778
Total shareholders' equity		**522,895**	**506,065**
Minority interest	15	212,406	208,802
Non-current liabilities			
Deferred profits tax liabilities	16	67,268	85,716
Non-current debt	17	13,635	25,546
Other non-current liabilities	18	23,672	23,974
Total non-current liabilities		**104,575**	**135,236**
Current liabilities			
Current debt and current portion of non-current debt	19	43,114	37,970
Accounts payable and accrued charges	3,20	86,548	96,993
Taxes payable	21	39,943	48,125
Total current liabilities		**169,605**	**183,088**
Total liabilities	6	**274,180**	**318,324**
Total shareholders' equity and liabilities		**1,009,481**	**1,033,191**

Chairman of the Management Board — Chubais A.B.

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

31 October 2002

RAO UES Group

Consolidated Interim Statement of Operations for the three and six months ended 30 June 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002)

	Notes	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Revenues					
Electricity		81,823	172,995	72,842	158,181
Heating		12,563	42,490	11,554	44,112
Governmental assistance	22	892	2,060	766	1,803
Other		7,550	13,220	6,894	13,270
Total revenues	6	**102,828**	**230,765**	**92,056**	**217,366**
Costs and other deductions					
Fuel expenses		24,395	60,546	23,596	64,268
Wages and payroll taxes		19,585	37,635	16,550	32,251
Purchased power		15,138	32,197	10,963	22,574
Depreciation and amortisation	8	15,174	30,265	14,325	28,635
Repairs and maintenance		7,521	13,959	7,556	14,020
Taxes other than on income		4,683	12,364	5,857	14,747
Other materials		4,216	8,060	4,758	8,796
Social expenditures		516	1,276	1,288	2,491
Doubtful debtors expense / (release)		428	990	(607)	(1,647)
Gain on disposal of fixed assets and investments		(253)	(80)	(194)	(126)
Other expenses		11,198	21,135	10,851	20,974
Total costs and other deductions		**102,601**	**218,347**	**94,943**	**206,983**
Income / (loss) from operations	6	**227**	**12,418**	**(2,887)**	**10,383**
Share of income of associates	9	267	462	228	460
Monetary effects and financing items	23	(301)	2,790	5,305	12,116
Income before profit tax and minority interest		**193**	**15,670**	**2,646**	**22,959**
Total profit tax (charge) / benefit	16	(5,560)	6,829	(6,824)	(20,811)
(Loss) / income before minority		**(5,367)**	**22,499**	**(4,178)**	**2,148**
Minority interest: share of net result	15	2,918	(4,691)	3,226	(1,183)
Net (loss) / income		**(2,449)**	**17,808**	**(952)**	**965**
(Loss) / earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	24	(0.06)	0.42	(0.02)	0.02

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31 October 2002

RAO UES Group

Consolidated Interim Cash Flow Statement for the six months ended 30 June 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002)

	Six months ended 30 June 2002	Six months ended 30 June 2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before profit tax	**15,670**	**22,959**
Adjustments to reconcile income before taxation to net cash provided by operations:		
Depreciation and amortisation	30,265	28,635
Doubtful debtors expense / (release)	990	(1,647)
Interest expense and gain on restructuring accounts payable and taxes payable	1,447	745
Share of income of associates, before profit tax	(462)	(460)
Loss on disposal of fixed assets and investments	(80)	(126)
Monetary effects on non-operating balances	(3,118)	(2,685)
Adjustment for non-cash investing activities	(4,138)	(11,619)
Other	2	(357)
Operating income before working capital changes and profit tax paid	**40,576**	**35,445**
Working capital changes:		
Increase in accounts receivable and prepayments	(1,154)	9,303
Increase in other current assets	(5,635)	2,985
Decrease in loans issued	5,253	-
Decrease in inventories	3,275	1,088
Decrease in other non-current assets	4,352	333
Decrease in accounts payable and accrued charges	(12,427)	(22,129)
Decrease in taxes payable, other than profits tax	(3,755)	(15,360)
(Decrease) / increase in other non-current liabilities	(301)	2,203
Profit tax paid (cash)	(13,063)	(12,843)
Profit tax paid (non-cash)	(132)	(398)
Net cash provided by operating activities	**16,989**	**627**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(13,406)	(3,892)
Proceeds from sale of property, plant and equipment	435	840
(Purchases of) / proceeds from sale of investments, net	(125)	144
Net cash used for investing activities	**(13,096)**	**(2,908)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	54,656	27,729
Proceeds from issuance of non-current debt	6,913	570
Repayment of debt	(63,085)	(25,716)
Interest paid	(4,203)	(872)
Dividends paid	(816)	(1,069)
Purchase of treasury shares	(6)	(1)
Net cash (used for) / provided by financing activities	**(6,541)**	**641**
Effect of inflation on cash and cash equivalents	(1,036)	(1,021)
Decrease in cash and cash equivalents	**(3,684)**	**(2,661)**
Cash and cash equivalents at the beginning of the period	**13,794**	**9,856**
Cash and cash equivalents at the end of the period	**10,110**	**7,195**

Chairman of the Management Board — Chubais A.B.

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31 October 2002

RAO UES Group

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 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	139,742	7,267	(723)	317,321	463,607
Adoption of IAS 39 (see Note 3)	-	-	-	(2,500)	(2,500)
At 31 December 2000, as adjusted	139,742	7,267	(723)	314,821	461,107
Net income	-	-	-	965	965
Dividends	-	-	-	(1,119)	(1,119)
Change in treasury shares, net	-	-	(1)	-	(1)
At 30 June 2001	139,742	7,267	(724)	314,667	460,952
At 1 January 2002	139,742	7,267	(722)	359,778	506,065
Net income	-	-	-	17,808	17,808
Dividends	-	-	-	(1,313)	(1,313)
Change in fair value of available-for-sale investments	-	-	-	341	341
Change in treasury shares, net	-	-	(6)	-	(6)
At 30 June 2002	139,742	7,267	(728)	376,614	522,895

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31 October 2002

Note 1: The Group and its operations

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

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries and associates as at 30 June 2002. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Despatch Centre ("CDC") and Regional Despatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

All member companies of the Group are incorporated under the laws of the Russian Federation (the "state").

The Group performs the following major activities:

- ***High voltage transmission:*** The high voltage transmission network connects all but a few regions of the Russian Federation. RAO UES maintains this network and charges a transmission fee to users of the network. The CDC, a 100 percent owned subsidiary of RAO UES, is responsible for system despatch and the Federal Wholesale Market of Electricity and Capacity ("FOREM");

- ***Regional generation and distribution:*** RAO UES has ownership interest in more than 70 regional power companies ("energos"), 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 direct to FOREM. The majority of these sales are within the Group.

At 30 June 2002, the number of employees of the Group was approximately 669,000 (31 December 2001: 685,000).

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

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

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

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

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

Relations with the state and current regulation. At 30 June 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 and sector restructuring. The power sector and the Group are presently undergoing restructuring designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise the capital required to maintain and expand current capacity. Under Government Resolution No. 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulatory market is currently being set up to sell 5-15 percent of the electricity generated. After 2005 all electricity generated is expected to be sold in a competitive, wholesale market. In accordance with the "Action Plan for the 1st Stage of the Electric Utilities Reform", approved by Government Directive No. 471-p dated 5 April 2002, the following is being undertaken:

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

- Federal Grid Company ("FSK") – FSK was established in June 2002, as a wholly-owned subsidiary, to manage the transmission operations using the transmission assets obtained from RAO UES;

- System Operator – "OAO System Operator – Central Dispatch Unit of Unified Energy System" ("SO") – SO was established in June 2002, to carry out the dispatch functions within the Group;

- RAO UES has drafted guidelines that set out the process for establishing wholesale generation companies, including a listing of the power stations included therein. At present, ministries and government agencies of the Russian Federation are considering these guidelines. Further, consultations are being held with heads and representatives of the regions whose power stations are earmarked for integration within the wholesale generation companies; and

- The subsidiaries and associates of RAO UES are taking steps to prepare for their reform.

As part of the restructuring process, amendments to Russian laws governing the future structure and foundations of the electricity market are being considered by legislative bodies of the Russian Federation. The Group's management plays an active role in the development of this new legislation and the amendment of the existing laws.

At this time, the impacts of the industry changes on both the financial results and position of the Group cannot be readily assessed and, 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 agreement, the Ministry of Finance of the Russian Federation ("MinFin") transferred to the Group its obligations regarding the RF debt in exchange for a commitment to repay such debt. The Group obtained a loan of RR 26,186 million from Sberbank (see Note 17) and then made payments totalling RR 26,459 million to the Czech Republic's formally appointed representative, Falcon Capital, to buy back the RF debt. MinFin paid RR 44,422 million to the Group upon confirmation that the RF debt had been settled and that the tax liability payments from suppliers described below had been received.

Concurrently, as part of its arrangement with MinFin, the Group issued loans to several of its major suppliers and to its subsidiaries, for RR 16,045 million and RR 28,417 million, respectively. The loans to suppliers were required to be made for one year, carry no interest, and are repayable in equal, monthly instalments through the end of 2002. As a result of the loans being issued at below market interest rates, the Group recorded a discount of RR 1,506 million in December 2001. At 30 June 2002, the balance outstanding on the loans issued was RR 9,286 million. The imputed interest recorded as a result of the amortisation of the discount for the six months ended 30 June 2002 was RR 851 million.

Note 1: The Group and its operations (continued)

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.

The resulting gain on the Czech transactions of RR 16,457 million was recorded in December 2001 and is comprised of the proceeds received from MinFin, less the amount paid to Falcon Capital and the discount on the loans issued to suppliers. The related profit tax expense of RR 4,090 million is reflected in the current profit tax charge for the period ended 30 June 2002, with a corresponding reduction in the deferred profit tax recorded at 31 December 2001.

Note 2: Financial condition

At 30 June 2002, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 2,463 million (31 December 2001: RR 9,532 million). 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 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 continues to aggressively implement collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 30 June 2002. The Group has provided against doubtful debtors, as further described in Notes 10 and 12.

The Group is affected by government policy through control of tariffs and other factors. The Regional Energy Commissions do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an IAS basis of accounting. As a result, tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

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

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

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

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 3: Basis of presentation

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with 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 IAS.

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

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

The conversion factors are derived from the Russian Federation Consumer Price Index (“CPI”) published by the Russian State Committee on Statistics (“Goscomstat”), and from indices obtained from other published sources for years prior to 1992. The indices used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 30 June 2002, and the respective conversion factors are:

Date	Index	Conversion Factor
31 December 1998	1,216,400	2.13
31 December 1999	1,661,481	1.56
31 December 2000	1,995,937	1.30
31 December 2001	2,371,572	1.09
30 June 2002	2,587,582	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 30 June 2002;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 June 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 30 June 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 year as a net monetary gain.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 3: Basis of presentation (continued)

The statement of operations includes a net monetary gain of RR 2,201 million and RR 5,678 million for the three and six months ended 30 June 2002, respectively (three months ended 30 June 2001: monetary gain of RR 5,361 million; six months ended 30 June 2001: monetary gain of RR 13,356 million) because, on average, the Group had net monetary liabilities during this period.

As at 31 August 2002 the CPI was 2,608,301 (1988 = 100), representing inflation of 1 percent since 30 June 2002.

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 profits tax liabilities	Minority interests	Retained earnings and fair value reserve
Available-for-sale investments	(3,522)	-	-	(3,522)
Accounts payable and taxes payable	3,116	(1,061)	(1,033)	1,022
		(1,061)	(1,033)	(2,500)

The adjustment to available-for-sale investments reflects the assessment by management of the fair value of investments on the balance sheet, which were carried at cost prior to 1 January 2001. The accounts payable and taxes payable adjustment is comprised of specific amounts payable which 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 deemed to exist when RAO UES controls greater than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. Control is deemed to exist for such entities on the basis of a dominant shareholding combined with other factors which allow the Group to exercise control.

A significant majority of 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 deemed to exercise significant influence but which it does not control.

Note 4: Summary of significant accounting policies (continued)

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 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$") at 30 June 2002 was RR 31.45: US$ 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.

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 30 June 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 4: Summary of significant accounting policies (continued)

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. Costs of borrowing are not capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of 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, 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.

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.

Note 4: Summary of significant accounting policies (continued)

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. 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 tax of 20 percent is applied to the majority of purchases and sales. Value added tax is reclaimable against current value added tax obligations upon payment and receipt of goods or services rendered. These obligations are recorded net of the reclaimed value added tax on purchases. Value added tax on purchases for which either payment has not been made, goods have not been received or construction has not been completed is recorded as an asset in the balance sheet.

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

Deferred 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 and 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.

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

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

Note 4: Summary of significant accounting policies (continued)

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 despatch of non-utility goods and services through the end of the period. Revenue amounts are presented exclusive of value added tax and other similar compulsory payments.

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

Earnings per share. Preference shares are considered to be participating shares as their dividend may not be less than that given to ordinary shares. Earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group. Preference shares participate in losses.

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

Seasonality. Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 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	51.1	51.1
Belgorodenergo	49.0	65.3	Experimentalnaya TETS	77.1	100.0
Ivenergo	49.7	56.6	Kabbalkenergo	50.3	59.8
Kalugaenergo	49.0	49.0	Kalmenergo	96.4	96.4
Kostromaenergo	49.0	65.3	Karachaevo-Cherkesskenergo	100.0	100.0
Kurskenergo	49.4	59.8	Kubanenergo	49.0	49.0
Lipetskenergo	49.0	49.0	Rostovenergo	48.4	62.8
Mosenergo	50.9	50.9	Sevkavkazenergo	49.0	49.0
Nizhnovenergo	49.0	62.3	Stavropolenergo	55.1	71.9
Orelenergo	49.5	60.6			
Ryazanenergo	49.0	49.0	***Ural***		
Smolenskenergo	48.7	59.3			
Tambovenergo	49.0	56.0	Chelyabenergo	49.0	58.1
Tulaenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Kurganenergo	49.0	53.8
Vladimirenergo	49.0	49.0	Orenburgenergo	100.0	100.0
Volgogradenergo	49.0	61.3	Permenergo	49.0	64.4
Vologdaenergo	49.0	49.0	Sverdlovenergo	49.0	65.3
Voronezhenergo	49.0	65.3	Tumenenergo	100.0	100.0
Yarenergo	47.8	60.3	Udmurtenergo	49.0	55.4
North-West			***Siberia***		
Arkhenergo	49.0	59.1	Altaienergo	54.7	72.2
Bryanskenergo	49.0	65.2	Buryatenergo	47.6	47.6
Karelenergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	65.5	Khakasenergo	100.0	100.0
Komienergo	50.1	50.3	Krasnoyarskenergo	51.8	66.4
Lenenergo	49.0	57.4	Kuzbassenergo	49.0	49.0
Novgorodenergo	49.0	62.9	Omskenergo	49.0	60.4
Pskovenergo	49.0	49.0	Tomskenergo	52.0	59.9
Yantarenergo	100.0	100.0			
Middle Volga			***East***		
Chuvashenergo	100.0	100.0	Amurenergo	53.1	61.1
Marienergo	64.4	70.1	Dalenergo	49.0	65.3
Mordovenergo	54.7	54.7	Geotherm	78.5	78.6
Penzaenergo	49.0	60.2	Khabarovskenergo	48.8	60.8
Samaraenergo	49.2	56.3	Kolymaenergo	98.9	98.9
Saratovenergo	49.8	64.6	Kamchatskenergo	49.0	59.2
Ulyanovskenergo	49.0	65.3	Magadanenergo	49.0	64.4
			Sakhalinenergo	49.0	49.0
			Sakhaenergo	49.0	100.0
			Yakutskenergo	49.0	58.1

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 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	86.4
Kabbalk GES	74.3	98.0	Volzhskaya GES (Zhigulevsk)	85.0	88.1
Kamskaya GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zaramagskie GES	90.5	92.6
Sayano-Shushenskaya GES	78.9	82.8	Zeiskaya GES	56.9	72.5
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	86.6	86.6	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 %
Boguchangesstroi	65.4	69.4	Cherkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Zeyagesstroi	100.0	100.0

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Despatch Centre	100.0	100.0	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			

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. Accordingly, it has not been consolidated and is classified as an available-for-sale investment in other current assets.

During the period ended 30 June 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; this classification is consistent with the disclosure in the prior year's consolidated financial statements.

- ***"RAO UES segment"*** this segment principally comprises RAO UES, which maintains and operates the high voltage electricity transmission grid and controls FOREM. Transmission fees paid by energos 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 to FOREM. Tariffs in FOREM are set by the FEC;

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

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 6: Segment information (continued)

Three months ended 30 June 2002	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Gross revenues	12,213	99,101	9,019	1,302	-	121,635
Inter-group revenues	(9,502)	(1,365)	(6,987)	(953)	-	(18,807)
Net revenues	2,711	97,736	2,032	349	-	102,828
Segment income / (loss)	5,487	(3,911)	(1,405)	10	46	227
Capital expenditures	2,035	6,764	1,609	304	-	10,712
Depreciation and amortisation	2,537	11,058	1,536	43	-	15,174
Doubtful debtors expense / (release)	373	383	(261)	(67)	-	428

Six months ended 30 June 2002	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Gross revenues	26,722	223,303	20,006	2,234	-	272,265
Inter-group revenues	(20,554)	(3,448)	(15,750)	(1,748)	-	(41,500)
Net revenues	6,168	219,855	4,256	486	-	230,765
Segment income / (loss)	12,004	3,925	(3,383)	(119)	(9)	12,418
Capital expenditures	3,305	11,693	2,834	835	-	18,667
Depreciation and amortisation	5,057	22,064	3,069	75	-	30,265
Doubtful debtors expense / (release)	472	598	221	(301)	-	990

Three months ended 30 June 2001	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Gross revenues	10,023	88,200	9,536	780	-	108,539
Inter-group revenues	(7,378)	(590)	(8,515)	-	-	(16,483)
Net revenues	2,645	87,610	1,021	780	-	92,056
Segment income / (loss)	4,612	(5,484)	(2,309)	(729)	1,023	(2,887)
Capital expenditures	2,102	5,799	1,821	413	-	10,135
Depreciation and amortisation	2,498	10,008	1,772	47	-	14,325
Doubtful debtors expense / (release)	324	(223)	(634)	(74)	-	(607)

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 6: Segment information (continued)

Six months ended 30 June 2001	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Gross revenues	20,585	210,791	22,384	1,258	-	255,018
Inter-group revenues	(15,334)	(2,002)	(20,316)	-	-	(37,652)
Net revenues	5,251	208,789	2,068	1,258	-	217,366
Segment income / (loss)	8,183	2,512	(1,784)	(395)	1,867	10,383
Capital expenditures	3,197	10,260	4,277	665	-	18,399
Depreciation and amortisation	4,932	20,203	3,422	78	-	28,635
Doubtful debtors expense / (release)	398	(951)	(979)	(115)	-	(1,647)

As at 30 June 2002	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Segment total assets	398,059	760,243	126,501	12,142	(293,293)	1,003,652
Associates	-	5,829	-	-	-	5,829
Total assets	398,059	766,072	126,501	12,142	(293,293)	1,009,481
Segment liabilities	17,723	131,182	27,615	3,779	(30,136)	150,163
Unallocated liabilities						124,017
Total liabilities						274,180

As at 31 December 2001	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Segment total assets	403,748	718,136	123,772	10,635	(228,402)	1,027,889
Associates	-	5,302	-	-	-	5,302
Total assets	403,748	723,438	123,772	10,635	(228,402)	1,033,191
Segment liabilities	20,550	144,980	28,111	3,540	(28,089)	169,092
Unallocated liabilities						149,232
Total liabilities						318,324

All items that reconcile segment income or loss to the Group's net income or loss are not allocatable except for the Group's share of income or loss from associates which is attributable to the Energos segment.

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 6: Segment information (continued)

	Revenue			
	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
RAO UES segment	12,213	26,722	10,023	20,585
Centre	31,830	72,776	30,049	72,682
North-West	11,908	27,393	10,385	24,598
Urals	26,840	56,075	23,119	53,726
Siberia	13,102	29,749	11,969	28,433
Mid-Volga	7,628	17,612	6,766	16,301
East	9,879	24,443	8,471	20,856
South	8,235	17,495	7,757	17,837
	121,635	272,265	108,539	255,018
Consolidation adjustments	(18,807)	(41,500)	(16,483)	(37,652)
Total	102,828	230,765	92,056	217,366

	Total assets		Capital expenditures			
	30 June 2002	31 December 2001	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
RAO UES segment	398,059	403,748	2,035	3,305	2,102	3,197
Centre	263,969	261,873	2,518	4,303	2,234	3,855
North-West	76,775	70,396	793	1,566	822	2,757
Urals	199,544	189,520	1,562	2,423	981	1,806
Siberia	126,017	119,273	1,094	2,003	860	1,864
Mid-Volga	59,823	57,457	333	529	997	1,283
East	108,442	95,195	1,674	3,193	1,380	2,441
South	70,145	64,131	703	1,345	759	1,196
	1,302,774	1,261,593	10,712	18,667	10,135	18,399
Consolidation adjustments	(293,293)	(228,402)	-	-	-	-
Total	1,009,481	1,033,191	10,712	18,667	10,135	18,399

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:

	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Transmission fee income	140	332	129	269
Electricity revenues	44	68	1	20
Purchased power	34	68	61	69
Rental fee income	10	19	11	22

Note 7: Related parties (continued)

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.

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

Salary and bonuses paid to members of the management board by RAO UES, included in wages and payroll taxes in the statement of operations, amounted to RR 10 million and RR 43 million for the three and six months ended 30 June 2002, respectively (three months ended 30 June 2001: RR 25 million, six months ended 30 June 2001: RR 43 million). In addition, certain amounts were paid to members of the management board of RAO UES by RAO UES' subsidiaries in respect of management duties at those companies.

Eurofinance. Eurofinance is a financial organisation which provides services to the Group. These services include the collection of accounts receivable balances, the provision of short-term loans, and the purchase and sale of promissory notes. A member of the management board of RAO UES was elected to the Supervisory Board of Eurofinance in 2000. The member of the management board did not give his concurrence for such election, and the RAO UES Board of Directors has not authorized his participation in the managing bodies of Eurofinance; as a result he was not entitled to and did not participate in Eurofinance's Supervisory Board. 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 three months ended 31 March 2001: RR 42 million). Commission and interest approximate market rates. As at 31 March 2002, when Eurofinance ceased to be a related party, RAO UES held RR 657 million of promissory notes of Eurofinance (31 December 2001: nil), which subsequently declined to RR 1 million at 30 June 2002. The balance outstanding due to RAO UES from Eurofinance was RR nil and RR 5 million as at 31 March 2002 and 30 June 2002, respectively (31 December 2001: RR 312 million).

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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	651,182	198,522	648,077	116,289	229,506	221,353	2,064,929
Additions	585	17	318	44	16,006	1,697	18,667
Transfers	7,247	2,462	3,113	412	(17,087)	3,853	-
Disposals	(930)	(10)	(1,420)	(151)	(2,209)	(2,519)	(7,239)
Closing balance as at 30 June 2002	658,084	200,991	650,088	116,594	226,216	224,384	2,076,357
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2001	(398,823)	(101,003)	(446,342)	(79,196)	(62,674)	(148,974)	(1,237,012)
Charge for the period	(7,492)	(3,459)	(8,035)	(2,100)	-	(9,179)	(30,265)
Transfers	(2,647)	(373)	(1,509)	(398)	6,289	(1,362)	-
Disposals	840	10	1,356	142	1,004	2,355	5,707
Closing balance as at 30 June 2002	(408,122)	(104,825)	(454,530)	(81,552)	(55,381)	(157,160)	(1,261,570)
Net book value as at 30 June 2002	249,962	96,166	195,558	35,042	170,835	67,224	814,787
Net book value as at 31 December 2001	252,359	97,519	201,735	37,093	166,832	72,379	827,917

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.

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:

	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Non-cash acquisitions	2,758	5,261	7,407	13,910
Non-cash proceeds from the sale of property, plant and equipment	683	1,176	1,682	1,960

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

Impairment. For the period ended 30 June 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 30 June 2002 is RR 752,231 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 9: Investments in associates

The Group has investments in the following associated enterprises, both of which are incorporated and operate in Russia:

	30 June 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	3,915	1,387	5,302
Share of income of associates	456	6	462
Share of associates' tax benefit	6	59	65
Carrying value as at 30 June 2002	4,377	1,452	5,829

The Group's interest in associated enterprises is shown in the consolidated interim balance sheet at its proportion of net assets attributable to the Group at the date of transfer from the Russian Federation plus the Group's share of post-acquisition earnings and losses and other changes in the enterprise's equity, restated in terms of purchasing power of the Russian Rouble as at 30 June 2002.

Note 10. Other non-current assets

	30 June 2002	31 December 2001
Available-for-sale investments	10,679	15,076
Advances to contractors	7,758	6,126
Restructured trade receivables	2,577	4,215
(Net of allowance for doubtful debtors of RR 7,595 million as at 30 June 2002 and RR 10,828 million as at 31 December 2001)		
Other	709	999
	21,723	26,416

Note 11: Cash and cash equivalents

	30 June 2002	31 December 2001
Cash at bank and in hand	9,653	13,668
Foreign currency accounts	457	126
	10,110	13,794

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 12: Accounts receivable and prepayments

	30 June 2002	31 December 2001
Trade receivables	45,713	48,438
(Net of allowance for doubtful debtors of RR 49,576 million as at 30 June 2002 and RR 54,269 million as at 31 December 2001)		
Value added tax recoverable	17,296	17,858
Advances to suppliers and prepayments	16,435	11,683
Receivables from associates	608	600
Other receivables	19,299	20,609
(Net of allowance for doubtful debtors of RR 5,116 million as at 30 June 2002 and RR 6,439 million as at 31 December 2001)		
	99,351	99,188

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 20 - 29 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 were restructured during the period 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 six months ended 30 June 2002, approximately 19 percent (the six months ended 30 June 2001: 18 percent) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Accounts receivable and prepayments are stated at fair value.

Note 13: Inventories

	30 June 2002	31 December 2001
Materials and supplies	25,696	25,530
Fuel production stocks	10,227	13,000
Other inventories	1,640	2,308
	37,563	40,838

The above inventory balances are recorded net of an obsolescence provision of RR 2,556 million and RR 2,735 million as at 30 June 2002 and 31 December 2001, respectively.

Note 14: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	30 June 2002	31 December 2001
Ordinary shares	41,041,753,984	139,742	139,742
Preference shares	2,075,149,384	7,267	7,267
		147,009	147,009

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 14: Shareholders' equity (continued)

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

Dividends. The annual statutory accounts of the parent company, RAO UES, are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the net profit for the year. For 2001, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 12,777 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.

A dividend was declared in respect of the year ended 31 December 2001 of RR 0.0284 per ordinary share (RR 0.0260 per ordinary share unrestated) (in 2001 in respect of 2000: RR 0.0262 per ordinary share, RR 0.0200 per ordinary share unrestated) and RR 0.1293 per preference share (RR 0.1185 per preference share unrestated) (in 2001 in respect of 2000: RR 0.0957 per preference share, RR 0.0738 per preference share unrestated).

Fair value reserve. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 30 June 2002 was a debit of RR 2,733 million (31 December 2001: RR 2,939 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 30 June 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 30 June 2002**
Ordinary shares	665	6	671
Preference shares	57	-	57
	722	6	728

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 15: Minority interests

	Six months ended 30 June 2002	Six months ended 30 June 2001
Opening balance	208,802	194,145
Adoption of IAS 39 (see Note 3)	-	1,033
Change in fair value of available-for-sale investments	53	-
Share of net result	4,691	1,183
Acquisitions and changes in Group structure	185	(1,078)
Dividends	(1,325)	(394)
Closing balance	212,406	194,889

Note 16: Profit tax

Profit tax expense

	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Current profit tax charge	(3,570)	(11,684)	(3,835)	(12,459)
Deferred profit tax (charge) / benefit	(2,168)	18,448	(2,983)	(7,985)
Share of associate profit tax charge (see Note 9)	178	65	(6)	(367)
Total profit tax (charge) / benefit	(5,560)	6,829	(6,824)	(20,811)

The Group was subject to profit tax of 24 percent on taxable profit from 1 January 2002.

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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 16: Profit tax (continued)

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

	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Income before profit tax	193	15,670	2,646	22,959
Theoretical profit charge at an average statutory tax rate of 24 percent (2001: 35 percent)	(46)	(3,761)	(926)	(8,036)
Tax effect of items which are not deductible or assessable for taxation purposes:				
Net non-deductible expenses	(3,920)	(5,470)	(404)	(2,351)
Non-temporary elements of monetary gains / losses	(6,042)	(16,042)	(12,520)	(30,333)
Doubtful debtors expense	(103)	(238)	213	577
Tax interest and penalties	(93)	(1,188)	(872)	(2,251)
Inflation effect on deferred tax balance at beginning of the period	2,696	7,157	4,896	11,872
Effect of statutory revaluation of tax base	(1,070)	31,167	-	6,876
Non-recognised deferred tax assets movements	1,222	(3,957)	1,963	4,354
Other	1,796	(839)	826	(1,519)
Total profit tax (charge) / benefit	(5,560)	6,829	(6,824)	(20,811)

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

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

Deferred profit tax liability

	30 June 2002	Movement for the period	31 December 2001
Trade receivables	715	(82)	797
Property, plant and equipment	58,893	(15,832)	74,725
Accounts payable	6,449	(4,029)	10,478
Inventories	(210)	336	(546)
Other	1,421	1,159	262
	67,268	(18,448)	85,716
Deferred profit tax assets	15,716	3,957	11,759
Less non-recognised deferred tax asset	(15,716)	(3,957)	(11,759)
	67,268	(18,448)	85,716

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 16: Profit tax (continued)

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.

A deferred profits tax asset has not been recognised for the Group's unused profits tax losses either as at 30 June 2002 or 31 December 2001.

Note 17: Non-current debt

	Currency	Effective interest rate	Due	30 June 2002	31 December 2001
Central and regional government loans	RR	21.0% - 35.0%	2003 and thereafter	2,376	2,528
Central and regional government loans	US$	7.5%	2003 and thereafter	2,468	2,455
Eurobond	US$	8.0%	2002	3,458	4,960
Bonds issued by subsidiaries	RR / US$ *	8.0%	2003	4,136	4,053
Bonds – RAO UES	RR / US$ *	7.0%	2002-2003	3,354	3,507
Bank debt in foreign banks	Euro	7.5%	2002-2005	2,723	-
Bank debt in foreign banks	US$	8.0% - 10.0%	2003 and thereafter	1,326	1,478
Bank debt in Russian banks	Euro	8.0% - 10.0%	2003 and thereafter	118	169
Bank debt in Russian banks	RR **	20.0% - 35.0%	2003 and thereafter	17,187	26,568
Other long-term debt				557	712
Total non-current debt				37,703	46,430
Less: current portion of non-current debt				(24,068)	(20,884)
				13,635	25,546

* 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 26,186 million loan from Sberbank. The loan is payable in equal quarterly instalments through 2004. The loan interest is fixed at 20 percent until 1 April 2002; thereafter, the annual interest rate varies and is 20 percent if RAO UES maintains a cash balance greater than RR 800 million with Sberbank, and 22.5% if the RAO UES's balance is below RR 800 million.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 17: Non-current debt (continued)

Maturity table	**30 June 2002**	**31 December 2001**
Due for repayment		
Between one and two years	11,028	18,470
Between two and five years	1,492	4,051
After five years	1,115	3,025
	13,635	25,546

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

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

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

At the interim balance sheet date, the estimated fair value of total non-current debt was RR 37,296 million, which is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

Note 18: Other non-current liabilities

	30 June 2002	**31 December 2001**
Taxes payable	27,364	24,936
Trade payables and other creditors	2,881	5,965
Other	1,892	1,670
Total other non-current liabilities	32,137	32,571
Less: current portion of restructured liabilities	(8,465)	(8,597)
	23,672	23,974

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 taxes payable 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 – 24 percent have been used in the estimate of the fair value of these liabilities.

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

The maturity profile is as follows:

	30 June 2002	**31 December 2001**
Between one and two years	7,347	10,829
Between two and five years	9,774	7,729
After five years	6,551	5,416
	23,672	23,974

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

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

	Effective interest rate	30 June 2002	31 December 2001
Current debt	19.0% - 35.0%	19,046	17,086
Current portion of non-current debt		24,068	20,884
		43,114	37,970

Note 20: Accounts payable and accrued charges

	30 June 2002	31 December 2001
Trade payables	54,752	60,589
Accrued liabilities and other creditors	25,908	30,770
Dividends payable	2,623	949
Bills of exchange payable	777	849
Payables to associates	122	71
Current portion of trade payables and other creditors restructured to long-term	2,366	3,765
	86,548	96,993

For the six months ended 30 June 2002, approximately 18 percent (six months ended 30 June 2001: 29 percent) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

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

Note 21: Taxes payable

	30 June 2002	31 December 2001
Value added tax	11,906	13,358
Fines and interest	8,530	13,846
Turnover taxes	3,298	6,410
Other taxes	2,947	1,316
Employee taxes	2,920	2,948
Property tax	2,572	2,000
Profit tax	1,671	3,415
Current portion of taxes restructured to long-term	6,099	4,832
	39,943	48,125

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

- in Value added tax – RR 9,953 million (31 December 2001: RR 9,787 million); and
- in Turnover taxes – RR 597 million (31 December 2001: RR 755 million).

Substantially all accrued taxes above, excluding the amounts which have been restructured, incur at the refinance rate of the Central Bank of the Russian Federation. As at 30 June 2002 the refinance rate was 23 percent (31 December 2001: 25 percent). Interest does not accrue on tax penalties and interest.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 21: Taxes payable (continued)

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

For the six months ended 30 June 2002, approximately 1 percent (six months ended 30 June 2001: 2 percent) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 22: Governmental assistance

During the three and six months ended 30 June 2002 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 668 million and RR 1,525 million, respectively (three months ended 30 June 2001: RR 440 million; six months ended 30 June 2001: RR 1,287 million), for certain entities in the Far East region and RR 224 million and RR 535 million for the three and six months ended 30 June 2002, respectively (three months ended 30 June 2001: RR 326 million; six months ended 30 June 2001: RR 516 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

	Three months ended 30 June 2002	**Six months ended 30 June 2002**	**Three months ended 30 June 2001**	**Six months ended 30 June 2001**
Gain on restructuring accounts payable and taxes payable	1,478	6,796	937	1,428
Monetary gain	2,201	5,678	5,361	13,356
Imputed interest income	358	851	-	-
Interest expense	(3,722)	(9,094)	(884)	(2,172)
Foreign exchange loss	(616)	(1,441)	(109)	(496)
	(301)	2,790	5,305	12,116

The discounting of the restructured payable amounts gives rise to gains. The discount is amortized over the period of the restructuring as an expense; RR 1,607 million and RR 4,832 million of such amortisation was included in interest expense for the three and six months ended 30 June 2002, respectively (three months ended 30 June 2001: RR 142 million; six months ended 30 June 2001: RR 597 million). Further information on the restructuring of the accounts payable and taxes payable is contained in Notes 18, 20 and 21.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 June 2002, except as disclosed)

Note 24: Earnings per share

	Three months ended 30 June 2002	Six months ended 30 June 2002	Three months ended 30 June 2001	Six months ended 30 June 2001
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(418,211)	(417,886)	(418,505)	(418,392)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,698,692	42,699,017	42,698,398	42,698,511
Net (loss) / income	(2,449)	17,808	(952)	965
(Loss) / earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	(0.06)	0.42	(0.02)	0.02

Note 25: Commitments

Sales commitments. The Group entered into two export contracts with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo, and one contract with Pohjolan Voima Oy. One contract with Fortum is for the supply of a minimum of 1.6 million MWh of electricity per year, at prices between Euro 12.15 and Euro 20.50 per MWh. This contract expires at the end of 2007. The second contract with Fortum is for the supply of between 0.35 million and 0.50 million MWh of electricity per year at Euro 17.25 per MWh, through to the end of 2008.

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

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements 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 construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 34,214 million at 30 June 2002 and RR 41,569 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.

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 interim 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.

Note 28: Subsequent events

Bonds. In September 2002 the Group registered a prospectus with the Federal Securities Commission of the Russian Federation for the issuance of 3 million bonds with a nominal value of RR 1,000 per bond. In October 2002 the bonds were placed on the open market. The bonds yield an effective interest of 15 percent and mature in October 2005. Interest is payable semi-annually for the first two years, with a final interest payment due on the bond maturity date.

Loan. After the balance sheet date, the Group obtained a US$ 70 million loan from the European Bank for Reconstruction and Development ("EBRD"). The stated interest rate for the loan is the LIBOR plus 4.25%. Interest and portion of principal are repayable semi-annually up to the expiry of the loan in 2007.