

RAO UES GROUP
IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2004



ZAO KPMG
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (095) 937 4477
Fax +7 (095) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors
OAO RAO UES of Russia

We have audited the accompanying consolidated interim balance sheet of OAO RAO UES of Russia and its subsidiaries (the "Group") as of 30 September 2004, the related consolidated interim statements of operations for the three and nine month periods then ended, and the related consolidated interim statements of changes in shareholders' equity and cash flows for the nine month period then ended. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting 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.

In our opinion, the consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as of 30 September 2004, the results of its operations for the three and nine month periods then ended, and its cash flows for the nine month period then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
26 January 2005

RAO UES Group

Consolidated Interim Balance Sheet as at 30 September 2004

(in millions of Russian Roubles)

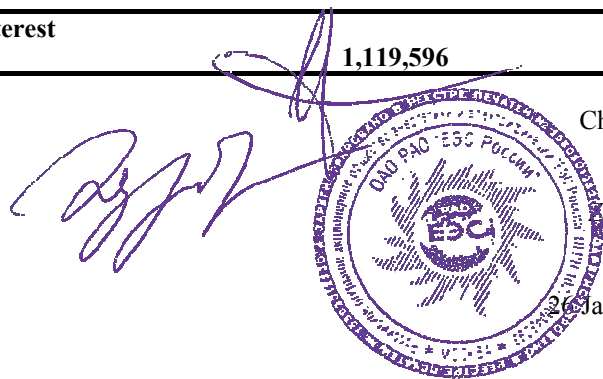
	Notes	30 September 2004	31 December 2003
Assets			
Non-current assets			
Property, plant and equipment	8	879,490	872,179
Investments in associates		22	196
Deferred profit tax assets	15	3,360	3,881
Other non-current assets	9	32,615	26,200
Total non-current assets		915,487	902,456
Current assets			
Cash and cash equivalents	10	38,842	31,978
Accounts receivable and prepayments	11	114,586	105,340
Inventories	12	46,150	42,731
Other current assets		4,531	5,036
Total current assets		204,109	185,085
Total assets	6	1,119,596	1,087,541
Shareholders' equity, minority interest and liabilities			
Shareholders' equity			
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		(2,855)	(355)
		152,251	154,751
Retained earnings and other reserves		444,238	432,553
Total shareholders' equity		596,489	587,304
Minority interest	14	222,736	219,687
Non-current liabilities			
Deferred profit tax liabilities	15	55,647	57,895
Non-current debt	16	17,366	12,556
Other non-current liabilities	17	19,796	24,202
Total non-current liabilities		92,809	94,653
Current liabilities			
Current debt and current portion of non-current debt	18	70,718	50,496
Accounts payable and accrued charges	19	96,828	89,758
Taxes payable	20	40,016	45,643
Total current liabilities		207,562	185,897
Total liabilities	6	300,371	280,550
Total shareholders' equity, minority interest and liabilities		1,119,596	1,087,541

Chairman of the Management Board

Chubais A.B.

Financial Director

Churba D.G.



6 January 2005

RAO UES Group

Consolidated Interim Statement of Operations for the three and nine months ended 30 September 2004

(in millions of Russian Roubles)

	Notes	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Revenues					
Electricity		111,737	366,903	101,813	326,997
Heating		9,992	75,400	8,756	66,845
Governmental assistance	21	2,367	4,633	1,803	4,032
Other		10,887	30,777	6,600	21,945
Total revenues	6	134,983	477,713	118,972	419,819
Costs and other deductions					
Fuel expenses		33,487	129,912	28,713	113,926
Wages, benefits and payroll taxes		25,863	74,432	24,412	68,483
Purchased power		16,477	54,362	17,070	52,739
Depreciation and property, plant and equipment impairment	8	17,211	50,785	15,072	45,120
Repairs and maintenance		13,097	34,889	11,661	29,962
Taxes other than on income		3,509	14,348	4,666	14,770
Other materials		3,173	8,745	2,676	9,917
Electricity and heat distribution		2,148	6,465	1,274	3,756
Doubtful debtors (reversal of expense) / expense		(93)	3,356	(1,128)	909
Insurance expense		1,223	3,554	1,072	3,207
Water usage expenses		1,003	3,331	993	3,344
Social expenditures		387	1,239	705	2,373
(Gain) / loss on disposal of property, plant and equipment and investments		(588)	26	144	333
Other expenses	22	17,381	49,716	11,305	33,777
Total costs and other deductions		134,278	435,160	118,635	382,616
Income from operations	6	705	42,553	337	37,203
Share of loss of associates		(6)	(170)	(10)	(10)
Net financing expenses	23	(5,929)	(11,626)	(3,319)	(7,739)
(Loss) / income before profit tax and minority interest		(5,230)	30,757	(2,992)	29,454
Total profit tax benefit / (charge)	15	455	(13,327)	(3,087)	(17,998)
Net (loss) / income		(4,775)	17,430	(6,079)	11,456
Minority interest: share of net result	14	3,456	(3,327)	5,769	5,149
Net (loss) / income		(1,319)	14,103	(310)	16,605
(Loss) / earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	24	(0.03)	0.33	(0.01)	0.39

Chairman of the Management Board

Chubais A.B.

Financial Director

Zhurba D.G.

26 January 2005

RAO UES Group**Consolidated Interim Cash Flow Statement for the nine months ended 30 September 2004**

(in millions of Russian Roubles)

	Nine months ended 30 September 2004	Nine months ended 30 September 2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before profit tax	30,757	29,454
Adjustments to reconcile income before profit tax to net cash provided by operations:		
Depreciation and property, plant and equipment impairment	50,785	45,120
Doubtful debtors expense	3,356	909
Interest and gain on restructuring accounts payable and taxes payable	11,975	8,553
Share of loss of associates, before profit tax	170	10
Loss on disposal of property, plant and equipment and investments	26	333
Adjustment for non-cash investing activities	(1,636)	(9,843)
Operating cash flows before working capital changes and profit tax paid	95,433	74,536
Working capital changes:		
Increase in accounts receivable and prepayments	(12,602)	(10,426)
Decrease in other current assets	505	3,216
Increase in inventories	(3,419)	(6,620)
Increase in other non-current assets	(8,495)	(3,535)
Increase in accounts payable and accrued charges	3,213	6,068
Decrease in taxes payable, other than profits tax	(2,661)	(3,984)
Decrease in other non-current liabilities	(9,000)	(2,418)
Profit tax paid (cash)	(17,668)	(13,792)
Profit tax paid (non-cash)	(350)	(368)
Net cash provided by operating activities	44,956	42,677
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(54,518)	(40,182)
Proceeds from sale of property, plant and equipment	1,931	3,505
Proceeds from sales / (purchases) of investments, net	41	(566)
Acquisition of subsidiaries, net of cash acquired	(567)	(651)
Net cash used for investing activities	(53,113)	(37,894)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	160,140	123,049
Proceeds from issuance of non-current debt	6,968	1,705
Repayment of debt	(142,156)	(121,042)
Interest paid	(5,043)	(6,128)
Dividends paid to RAO UES shareholders	(633)	(503)
Dividends paid by Group to minority interest shareholders	(1,811)	(1,788)
Proceeds from share issuance	56	384
(Purchases of) / proceeds from treasury shares, net	(2,500)	1,446
Net cash provided by / (used for) financing activities	15,021	(2,877)
Increase in cash and cash equivalents	6,864	1,906
Cash and cash equivalents at the beginning of the period	31,978	17,569
Cash and cash equivalents at the end of the period	38,842	19,475

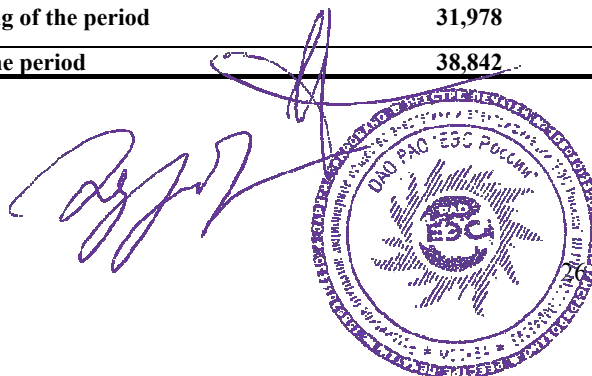
Chairman of the Management Board

Chubais A.B.

Financial Director

Zhurba D.G.

26 January 2005



RAO UES Group**Consolidated Interim Statement of Changes in Shareholders' Equity for the nine months ended****30 September 2004**

(in millions of Russian Roubles)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 2003	147,439	7,667	(770)	412,079	566,415
Net income	-	-	-	16,605	16,605
Dividends	-	-	-	(1,988)	(1,988)
Change in fair value of available-for-sale investments	-	-	-	(57)	(57)
Change in treasury shares, net	-	-	415	726	1,141
At 30 September 2003	147,439	7,667	(355)	427,365	582,116
At 1 January 2004	147,439	7,667	(355)	432,553	587,304
Net income	-	-	-	14,103	14,103
Dividends	-	-	-	(2,399)	(2,399)
Change in fair value of available-for-sale investments	-	-	-	(106)	(106)
Translation differences	-	-	-	87	87
Change in treasury shares, net	-	-	(2,500)	-	(2,500)
At 30 September 2004	147,439	7,667	(2,855)	444,238	596,489

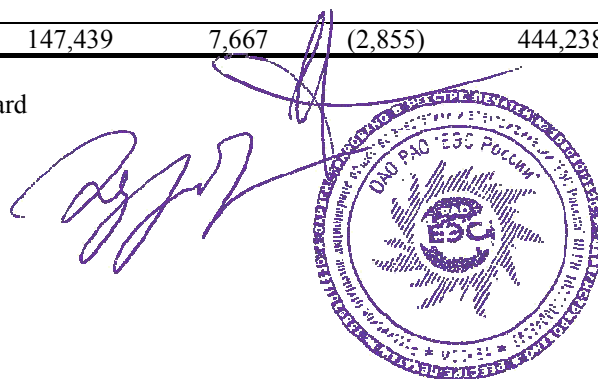
Chairman of the Management Board

Chubais A.B.

Financial Director

Zhurba D.G.

26 January 2005



RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

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 and associates as at 30 September 2004. 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.

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 47 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 30 September 2004, the number of employees of the Group was approximately 551,000 (31 December 2003: 557,000).

RAO UES's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, Moscow, Russia.

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

Operating environment. The Russian Federation 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 tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Relations with the state and current regulation. At 30 September 2004, the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal service on tariffs ("FST"), with respect to its wholesale energy sales, and by the regional services on tariffs ("RSTs"), 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.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

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 reform 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 Electric Utilities" 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" ("Federal Law No.36-FZ").

- On 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES strategy for the period from 2003 through 2008". This document provides a detailed description of the major changes that are planned to take place in the Group during the electric utilities reform program.
- On 24 December 2004, the Government of the Russian Federation reviewed its policy aimed at the restructuring of electric utilities and appreciated the measures taken in line with the decisions made previously. A number of tasks related to the further reform was assigned to the Ministries and Agencies.
- At the present stage, bills are being drafted for the specific legislative acts envisioned under the aforementioned laws on electric utilities reform according to the action plan related to electric utilities reform and adopted by the resolution of the Russian Federation government of 17 July 2004 No 966-r (p). RAO UES has been playing an active role in drafting these parts of legislation.
- In December 2004, amendments were made to the Federal Law #36-FZ, which provide for postponement of prohibition for combining electricity transmission and dispatching electricity with electricity generation, sales and purchases from 1 January 2005 to 1 January 2006.
- In early September 2003, the Russian Federation Government issued Resolution # 1254-r which approved the structure of generating companies at the wholesale market ("WGCs"). In October 2004, Resolution of the Russian Federation Government #1367-r amended the structure of the WGCs. Under the Resolutions, 7 generating companies (6 companies based on thermal generating power plants and 1 company based on hydro generating power plants), which will include the power plants owned by RAO UES and its subsidiaries, will be established.
- In 2004, the Board of Directors of RAO UES at its meetings approved participation of RAO UES in all 7 WGCs. In 2004, state registration was issued to OAO "WGC-5", OAO "WGC-3" and OAO "Hydro-WGC".
- In October 2003, the Russian Federation government issued Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity (Power) Market: regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15 percent of their working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity (power) market during the transition period, has been holding electricity bidding in the free trading sector. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.
- The Federal Grid Company – OAO Federal Grid Company of Unified Energy System ("FGC") – was established in September 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 September 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 1: The Group and its operations (continued)

- All 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 and the government bodies.
- On 23 April 2004, the Board of Directors of RAO UES approved the listing and structure of 14 territorial generating companies ("TGCs"). It is planned that these companies will ultimately own power plants, currently owned by RAO UES subsidiaries (except for power plants to be included into WGCs).
- The Board of Directors of RAO UES at its meeting on September 3, 2004 approved creation of TGC-9 and TGC-14 through establishment of wholly owned subsidiaries of RAO UES and transfer to the said subsidiaries of generating assets of relevant regional companies on a lease basis. In December 2004, state registration was issued to OAO "TGC-9" and OAO "TGC-14".
- On 1 October 2004, the Board of Directors of RAO UES approved participation of RAO UES in 4 Interregional distribution grid companies ("IDGCs"), which will be involved in electricity transmission via distribution grids. It is planned, that in the course of restructuring of RAO UES subsidiaries the distribution grid companies ("DGCs") will be established and their shares will be exchanged to the shares of IDGCs.
- As at 26 January 2005, 38 subsidiaries of RAO UES have held General shareholders meeting at which plans for reorganization have been approved, and state registration was issued to the companies spun off from 20 RAO UES subsidiaries.

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, except as noted in Note 19, no provision has been recognised for the effects of the restructuring process.

Note 2: Financial condition

At 30 September 2004, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 3,453 million (at 31 December 2003: RR 812 million; 31 December 2002: 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 17, 19 and 20. 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 portion of the debtor balance as at 30 September 2004. The Group has provided against doubtful accounts receivable, as further described in Notes 9 and 11.

The Group is affected by government policy through control of tariffs and other factors. The RSTs 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.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 2: Financial condition (continued)

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, and comply with, International Financial Reporting Standards, including International Accounting Standards 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") with the exception of foreign companies which prepare their statutory financial statements in accordance with their statutory accounting requirements. The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair 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 profit taxes, allowance for doubtful debtors and fair values of financial instruments. Actual results could differ from these estimates.

Inflation accounting. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). 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. 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. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Adoption of new and revised standards. With effect from 31 March 2004, the Group has adopted IFRS 3 "Business combinations" (IFRS 3), IAS 36 (revised 2004) "Impairment of assets" (IAS 36) and IAS 38 (revised 2004) "Intangible assets" (IAS 38). The adoption of these standards did not have any impact on the consolidated financial statements.

Recent accounting pronouncements. During the period December 2003 to March 2004, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued 4 new standards. These standards, except for IFRS 3, IAS 36 and IAS 38, are effective for accounting periods commencing on or after 1 January 2005 but may be adopted early. The Group has not early adopted these revised and new standards in preparing these interim financial statements. IFRS 3, IAS 36 and IAS 38 were adopted as described above.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

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, more 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 state 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 express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in 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. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. 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.

Foreign currency. Monetary assets and liabilities, which are held by the 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 balance sheets of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the reporting date. Statements of operations of foreign entities are translated at average exchange rate for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in the translation reserve in shareholders' equity.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

At 30 September 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US\$") was RR 29.22: US\$ 1.00 (31 December 2003: RR 29.45: US\$ 1.00), between the Russian Rouble and Euro RR 35.99: Euro 1.00 (31 December 2003: RR 36.82: Euro 1.00). Exchange restrictions and currency controls exist relating to converting the Russian Rouble into other currencies. The RR is not freely convertible in most countries outside the Russian Federation.

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 are 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 until 31 December 2002. 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. 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.

During the period of time that is required to complete and prepare the asset for its intended use interest costs on borrowings to finance the construction of property, plant and equipment are capitalised. All other borrowing costs are expensed.

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 expensed as incurred.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks. Cash equivalents comprise short-term high liquid investments that may be readily converted into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

The statement of cash flows has been prepared in accordance with IAS 7 “Cash Flow Statements”. However, the Group relies to some extent on non-cash transactions and individual items within operating activities 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 is 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 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 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 for impairment of receivables, impairment loss is recorded for the gross amount of the debtor’s balance, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

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

Deferred profit taxes. Deferred profit tax assets and liabilities are calculated in respect of temporary differences using the 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 than 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 (net financing expenses) 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.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

Debt. Debt is recognised initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; 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 and result of operations 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. In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in the statement of operations, however, separate disclosures are not provided as these costs 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 during 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 RSTs.

Earnings per share. Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. The 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. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

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

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

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 5: Principal subsidiaries

The following are the significant subsidiary enterprises which have been consolidated into the Group's financial statements. All subsidiaries with the exception of foreign companies are incorporated and operate in Russia.

Regional generation and distribution companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre			South		
Astrakhanenergo	48.7	48.7	Dagenergo	51.3	51.3
Belgorodenergo	49.0	65.3	Kabbalkenergo	65.3	65.3
Bryanskenergo	49.0	65.2	Kalmenergo	96.4	96.4
Ivenergo	49.7	56.6	Karachaevo-Cherkesskenergo	100.0	100.0
Kalugaenergo	52.3	52.3	Kubanenergo	49.0	49.0
Kostromaenergo	49.0	65.3	Nurenergo	100.0	100.0
Kurskenergo	49.0	59.5	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	49.0	60.3			
Ryazanenergo	49.0	49.0	Ural		
Smolenskenergo	49.8	60.5	Chelyabenergo	49.0	49.0
Tambovenergo	49.0	56.0	Kirovenergo	48.2	64.0
Tulenergo	49.0	49.0	Kurganenergo	49.0	49.0
Tverenergo	49.0	65.3	Orenburgenergo	100.0	100.0
Vladimirenergo	49.0	49.0	Permenergo	49.0	64.4
Volgogradenergo	49.0	61.3	Sverdlovenegero	49.0	65.3
Vologdaenergo	49.0	49.0	Tumenenergo	100.0	100.0
Voronezhenergo	49.0	65.3	Udmurtenergo	49.0	55.4
Yarenergo	47.8	60.3			
North-West			Siberia		
Arkhenegero	49.0	59.1	Altaienergo	54.7	72.2
Karelenergo	100.0	100.0	Buryatenergo	47.0	47.0
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	66.4
Novgorodenergo	49.0	62.9	Kuzbassenergo	49.0	49.0
Pskovenergo	49.0	49.0	Omskenergo	49.0	60.4
Yantarenergo	100.0	100.0	Tomskenergo	52.0	59.9
			Tuvaenergo	51.2	99.0
Middle Volga			East		
Chuvashenergo	100.0	100.0	Amurenergo	50.6	57.8
Marienergo	64.4	70.1	Dalenergo	49.0	65.3
Mordovenergo	53.1	53.1	Geotherm	72.6	78.5
Nizhnovenergo	49.0	62.3	Khabarovskenergo	48.5	60.2
Penzaenergo	49.0	49.0	Kolymaenergo	87.6	87.6
Samaraenergo	48.3	55.4	Kamchatskenergo	49.0	49.0
Saratovenergo	49.0	49.0	Magadanenergo	49.0	64.4
Ulyanovskenergo	49.0	49.0	Sakhalinenergo	49.0	49.0
			Sakhaenergo	47.9	100.0
			Yakutskenergo	47.9	56.3

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	75.4	76.5	Taimyrengo	100.0	100.0
Kabbalk GES	81.4	98.0	Volzhskaya GES	83.3	86.4
Kamskaya GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zaramagskie GES	90.0	91.7
Nizhegorodskaya GES	100.0	100.0	Zeiskaya GES	56.9	57.4
Saratovskaya GES	100.0	100.0	Zelenchugskie GES	100.0	100.0
Sayano-Shushenskaya GES	78.9	82.8	Zhigulevskaya GES	84.9	85.8
Sulakenergo	99.1	99.1			

Thermal generating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES –1	100.0	100.0	Nevinomysskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	North-West Station	68.2	75.3
Dzerzhinskaya TETS	49.0	100.0	Novocherkasskaya GRES	100.0	100.0
Gusinoozerskaya GRES	100.0	100.0	Novomoskovskaya GRES	49.0	100.0
Experimentalnaya TETS	74.9	100.0	Pechorskaya GRES	51.0	51.0
Kaliningradskaya TETS –2	87.0	87.0	Permskaya GRES	100.0	100.0
Kaluzhskaya Generation Company	52.3	52.3	Pskovskaya GRES	50.0	50.0
Kharanorskaya GRES	100.0	100.0	Ryazanskaya GRES	100.0	100.0
Kirishskaya GRES	100.0	100.0	Shekinskie PGU	92.1	98.9
Konakovskaya GRES	51.0	51.0	Sochinskaya TETS	100.0	100.0
Kostromskaya GRES	51.0	51.0	Stavropolskaya GRES	51.0	51.0
Krasnoyarskaya GRES –2	100.0	100.0	Troitskaya GRES	100.0	100.0
Kuban GRES	79.8	99.9	Voronezh Generation Company	49.0	65.3
Lutek	56.3	56.3			

Construction companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Boguchanskaya GES	64.2	68.0	Chirkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Ivanovskie PGU	100.0	100.0

Grid companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Federal Grid Company	100.0	100.0	Kaluga Trunk Grid Company	52.3	52.3

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Dispatch Centre	100.0	100.0	Kaluga Retail Company	52.3	52.3
Centre of Settlement Optimisation	100.0	100.0	Media-Holding REN-TV	70.0	70.0
Energy Centre	75.0	75.0	System Operator	100.0	100.0
Engineering Centre	100.0	100.0	Voronezh Energy Retail Company	49.0	65.3
Insurance company LIDER	100.0	100.0			
Inter RAO UES	60.0	60.0			

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

Foreign companies

Name	Ownership %	Voting %	Country
RAO Nordic	60.0	100.0	Finland
Telasi	45.0	75.0	Georgia
Mtkvari	60.0	100.0	Georgia
Transenergy	30.0	50.0	Georgia
Silk Road	60.0	100.0	Netherlands
Gardabani	60.0	100.0	Netherlands
Georgia	60.0	100.0	Netherlands
MEK	54.0	100.0	Armenia

The Group also 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. Primarily 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.

In June 2003, RAO Nordic, a Group entity, founded ZAO MEK, an entity located in Armenia. RAO Nordic owns a 90 percent interest in this entity. In September 2003, ZAO MEK purchased assets of ZAO Sevan-Razdansky Kaskad, a cascade of hydroplants located in Armenia, for a fair value consideration of RR 1,172 million (US\$ 25 million payable immediately and EUR 17 million payable along with related interest over a period of 32 years commencing in 2009). The Group has settled the US\$ 25 million payment to the seller by assuming the liability of ZAO Armyanskaya AS, a nuclear power plant, located in Armenia ("Armenian NPP"), owned by the government of Armenia, which was also the ultimate owner of the assets purchased, to a supplier of nuclear fuel. The assumed liability was redeemed during the nine months ended 30 September 2004 for RR 567 million.

The assets arising from the acquisition are as follows:

Accounts receivable and prepayments	43
Other current assets	52
Property, plant and equipment	1,077
Fair value of assets acquired	1,172

The above acquisition was accounted for under the purchase method of accounting. The purchase price of the foreign acquisition was translated at the exchange rate in effect at the date of acquisition.

In May 2003, RAO Nordic, a Group entity, concluded an agreement to settle a separate liability of Armenian NPP to another supplier of nuclear fuel for the amount of RR 490 million (US\$ 15.7 million). RAO Nordic will receive this amount back from Armenian NPP along with interest during two years commencing in June 2003. As of 30 September 2004 the outstanding recoverable balance of RR 189 million is included within other current assets.

Inter RAO UES and the government of Armenia have entered into a contract in the respect of the Armenian NPP and will be entitled to the higher of 25 percent of that plant's annual net income during the period of 5 years commencing in September 2003 or US\$ 0.1 million annually as a management fee (in the case of annual dividend distribution).

In August 2003, the Group acquired 100 percent of the shares of AES Silk Road, AES Gardabani and AES Georgia, all holding companies based in the Netherlands, from the AES Group. In addition, amounts receivable by the AES Group from the above companies amounting to RR 15,923 million (US\$ 522 million) were acquired by the Group. The total consideration paid in cash was RR 704 million (US\$ 23 million).

The above holding companies were, in their turn, the owners of shares in certain entities located in Georgia: 75 percent of AES Telasi, an entity which holds electricity distribution assets, 100 percent of OOO AES Mtkvari, an entity which holds electricity and heat generation assets; 50 percent of AES Transenergy, an entity which exports energy; AES Georgia is also the owner of the management rights of Khramesy 1 and 2 hydrogeneration plants.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	53
Accounts receivable and prepayments	1,247
Other current assets	448
Property, plant and equipment	613
Other non-current assets	258
Accounts payable and accrued charges	(221)
Other current liabilities	(343)
Non-current debt	(97)
Other non-current liabilities	(153)
Minority interest	(1,101)
Fair value of net assets acquired	704
Less: cash and cash equivalents in subsidiary acquired	(53)
Cash flow on acquisition, net of cash acquired	651

The acquisition was accounted for under the purchase method of accounting. The results of operations of the acquired businesses were included in the consolidated financial statements as of the respective date of acquisition. The purchase price of the foreign acquisition was translated at the exchange rates in effect as the respective date of acquisition.

During nine months ended 30 September 2004 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 FST;
- **“Energos segment”** consists of regional electricity and 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 RSTs. Certain energos have surplus generation and sell electricity via FOREM. Tariffs in FOREM are set by the FST;
- **“Hydro and thermal generating stations segment”** consists of entities that produce and sell electricity to energos through FOREM, at tariffs set by the FST; and
- **“Unallocated”** consists of numerous insignificant segments including construction, and export generation and sales.

RAO UES Group**Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004**

(in millions of Russian Roubles)

Note 6: Segment information (continued)

Three months ended 30 September 2004	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	12,879	128,395	17,680	8,320	-	167,274
Intra-group revenues	(11,537)	(5,328)	(11,535)	(3,891)	-	(32,291)
Net revenues	1,342	123,067	6,145	4,429	-	134,983
Segment income / (loss)	5,575	(7,225)	86	2,269	-	705
Capital expenditures	5,106	15,521	7,028	589	-	28,244
Depreciation and property, plant and equipment impairment	143	11,549	1,877	3,642	-	17,211
Doubtful debtors (reversal of expense) / expense	(1,008)	682	(44)	277	-	(93)
Nine months ended 30 September 2004	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	41,550	454,198	54,381	24,255	-	574,384
Intra-group revenues	(36,856)	(12,621)	(36,844)	(10,350)	-	(96,671)
Net revenues	4,694	441,577	17,537	13,905	-	477,713
Segment income	18,886	18,164	4,628	875	-	42,553
Capital expenditures	11,598	33,501	14,615	1,986	-	61,700
Depreciation and property, plant and equipment impairment	7,071	33,918	5,166	4,630	-	50,785
Doubtful debtors (reversal of expense) / expense	(1,006)	2,514	373	1,475	-	3,356

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 6: Segment information (continued)

Three months ended 30 September 2003			Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
	Transmission	Energos				
Gross revenues	11,181	113,249	13,863	7,805	-	146,098
Intra-group revenues	(10,357)	(2,444)	(10,032)	(4,293)	-	(27,126)
Net revenues	824	110,805	3,831	3,512	-	118,972
Segment income / (loss)	3,422	(3,447)	(2,073)	2,410	25	337
Capital expenditures	2,650	14,517	3,043	735	-	20,945
Depreciation and property, plant and equipment impairment	2,029	11,035	1,613	395	-	15,072
Doubtful debtors expense / (reversal of expense)	548	(1,502)	340	(514)	-	(1,128)
Nine months ended 30 September 2003			Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
	Transmission	Energos				
Gross revenues	44,479	400,267	45,134	25,350	-	515,230
Intra-group revenues	(42,253)	(7,191)	(35,384)	(10,583)	-	(95,411)
Net revenues	2,226	393,076	9,750	14,767	-	419,819
Segment income	19,022	14,107	475	3,599	-	37,203
Capital expenditures	6,834	28,226	9,547	4,840	-	49,447
Depreciation and property, plant and equipment impairment	5,963	33,044	4,667	1,446	-	45,120
Doubtful debtors expense	550	160	101	98	-	909
As at 30 September 2004			Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
	Transmission	Energos				
Segment total assets	154,495	742,174	159,761	129,187	(66,043)	1,119,574
Associates	-	-	-	22	-	22
Total assets	154,495	742,174	159,761	129,209	(66,043)	1,119,596
Segment liabilities	4,168	139,417	41,784	165,333	(50,331)	300,371
Total liabilities	4,168	139,417	41,784	165,333	(50,331)	300,371
As at 31 December 2003			Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
	Transmission	Energos				
Segment total assets	148,721	739,889	140,723	112,530	(54,518)	1,087,345
Associates	-	-	-	196	-	196
Total assets	148,721	739,889	140,723	112,726	(54,518)	1,087,541
Segment liabilities	4,353	144,554	33,033	136,790	(38,180)	280,550
Total liabilities	4,353	144,554	33,033	136,790	(38,180)	280,550

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

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			
	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Transmission segment	12,879	41,550	11,181	44,479
Centre	41,354	149,935	36,088	128,642
North-West	15,243	55,170	12,771	47,567
Urals	34,840	114,198	29,152	99,831
Siberia	15,470	57,321	14,760	52,886
Middle Volga	14,632	50,211	13,325	45,367
East	14,907	48,689	11,650	43,016
South	10,812	35,749	10,654	32,777
	160,137	552,823	139,581	494,565
Unallocated	7,137	21,561	6,517	20,665
Consolidation adjustments	(32,291)	(96,671)	(27,126)	(95,411)
Total	134,983	477,713	118,972	419,819

	Total assets		Capital expenditures			
	30 September 2004	31 December 2003	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Transmission segment	154,495	148,721	5,106	11,598	2,650	6,834
Centre	249,555	252,458	6,377	12,504	4,677	9,630
North-West	89,929	82,194	3,294	7,499	1,768	3,827
Urals	185,312	187,967	2,856	5,886	3,479	5,710
Siberia	129,782	127,791	2,269	5,654	2,665	5,491
Middle Volga	67,149	63,875	1,459	3,151	543	1,591
East	116,055	107,162	3,465	7,338	2,808	8,571
South	69,164	65,558	2,990	6,486	1,870	3,895
	1,061,441	1,035,726	27,816	60,116	20,460	45,549
Unallocated	124,198	106,333	428	1,584	485	3,898
Consolidation adjustments	(66,043)	(54,518)	-	-	-	-
Total	1,119,596	1,087,541	28,244	61,700	20,945	49,447

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 7: Related parties

In May 2003, the Group acquired 25 percent of the share capital of a new entity OAO "Rossiskiye kommunalniye sistemy" (RKS). RKS is incorporated and operates in Russia. The entity was set up with the purpose to provide local utility services to customers.

The following transactions were carried out with RKS, the majority of which are based on tariffs set by the RSTs:

	Three months ended 30 September 2004	Nine months ended 30 September 2004
Electricity revenues	282	1,625
Heating revenues	118	1,542
Electricity and heat distribution expense	14	57

In July 2004, the Group issued a loan to RKS for the amount of RR 348 million bearing interest of 13 percent per annum. The loan is to be repaid in January 2006. As of 30 September 2004 the outstanding recoverable balance of RR 348 million is included within other non-current assets.

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.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Under the Russian legislation, fees, compensation or allowances to the members of the Board of Directors, being government employees, are transferred to the federal budget.

Remuneration of members of the Board of Directors amounted to RR 257 million for the nine months ended 30 September 2004 (RR 282 million for 2003). Remuneration of members of the Management Board, amounted to RR 21 million and RR 114 million for the three and nine months ended 30 September 2004, respectively (three months ended 30 September 2003: RR 53 million, nine months ended 30 September 2003: RR 97 million).

Employee share option plan. In June 2004, the Board of Directors approved a Share Option Plan for the employees of RAO UES (hereinafter – the Plan).

The Plan provides for the granting of share options to the members of the Management Board and other key employees of RAO UES (hereinafter – the Plan participants).

The Plan participants shall be rewarded for their work in RAO UES over the period of 3 years, starting from 25 June 2004.

A total of up to 410,417,540 ordinary shares (or one per cent of the issued ordinary shares of RAO UES) may be allocated under the plan. Half of the shares are allocated for granting share options to the members of the Management Board, the remainder to the other key employees of RAO UES.

Ordinary shares ultimately allocated under the Plan will be allocated from treasury shares repurchased by the Group for that purpose on the open market by a special-purpose entity, which is controlled by the Group. The treasury shares held for the purpose of the Plan will have no voting rights, unless otherwise decided by the Board of Directors.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 7: Related parties (continued)

In the event that the restructuring of RAO UES is completed prior to the exercise date of the share options, the Plan participants will be entitled to purchase successor shares or other securities, distributed among the RAO UES shareholders.

At 30 September 2004, based on decision of the Board of Directors the Group granted options to purchase 368,838,486 shares (signed share option agreement), including 163,629,716 granted to the members of the Management Board.

The number of shares, which the Plan participants may purchase as part of implementation of the Plan, in the event that the Plan participant has terminated its employment with RAO UES before 25 June 2007, will be calculated proportionally based on the number of days worked prior to terminating the employment of RAO UES. In case of breaching certain defined provisions of the labor agreement and termination of employment at the initiative of RAO UES, the Plan participants will lose their right to purchase the shares.

The exercise price of the share option is USD 0.2934 per share, which is the weighted average price of the shares of RAO UES on RTS over the period of 25 June 2003 through 24 June 2004. For the Plan participants, who joined RAO UES after 25 June 2004, the exercise price of the share option is the weighted average price of the shares of RAO UES on RTS one year before the date of the labor agreement. In addition to the exercise price, the Plan participants, who exercise their options, must reimburse part of the interest expenses paid on borrowings, which can be attracted for the purpose of purchases of the shares.

One of the vesting terms of the share options is prepayment by the members of the Management Board (in the amount of 10 percent of the share option agreement) and by other key employees (in the amount of 0.2 percent of the share option agreement). In the event that realization of the share option lapses, the prepayment will be returned to the Plan participant in full.

The Plan participant can exercise the share option at any time over the period of 25 June 2007 through 25 January 2008.

At 30 September 2004, the Group granted to the members of the Management Board non-interest bearing loans, which will be used by individuals to make prepayments under the share option agreements. The loans are granted for a period of 5 years.

At 30 September 2004, as part of the Plan implementation the Group purchased 301,602,100 treasury shares. Their purchase cost was RR 2,500 million (see Note 13).

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

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 2003	752,306	231,671	708,034	130,722	205,590	242,568	2,270,891
Additions	1,545	1,114	728	274	55,206	2,833	61,700
Transfers	14,140	9,738	7,909	1,811	(41,495)	7,897	-
Disposals	(2,564)	(1,220)	(1,694)	(773)	(3,416)	(4,492)	(14,159)
Closing balance as at 30 September 2004	765,427	241,303	714,977	132,034	215,885	248,806	2,318,432

Accumulated depreciation (including impairment)

Opening balance as at 31 December 2003	(466,073)	(131,993)	(505,247)	(94,522)	(25,595)	(175,282)	(1,398,712)
Charge for the period	(12,578)	(7,042)	(11,550)	(3,486)	(2,811)	(13,318)	(50,785)
Transfers	(1,760)	(1)	(655)	(81)	3,316	(819)	-
Disposals	2,026	1,108	1,596	770	169	4,886	10,555
Closing balance as at 30 September 2004	(478,385)	(137,928)	(515,856)	(97,319)	(24,921)	(184,533)	(1,438,942)
Net book value as at 30 September 2004	287,042	103,375	199,121	34,715	190,964	64,273	879,490
Net book value as at 31 December 2003	286,233	99,678	202,787	36,200	179,995	67,286	872,179

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.

The assets transferred to the Group upon privatisation did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registrar body or to continue occupying this land under a rental agreement. Russian legislation does not specify an expiry date to this option. As at 30 September 2004, the majority of the Group's companies have not filed any application to exercise the purchase option.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 8: Property, plant and equipment (continued)

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

	Nine months ended 30 September 2004	Nine months ended 30 September 2003
Non-cash acquisitions	7,182	9,266
Non-cash proceeds from the sale of property, plant and equipment	1,647	1,720

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

Impairment. For the nine months ended 30 September 2004, management assessed the adequacy of the existing impairment provision and concluded that an additional impairment charge was needed due to changes in estimated future net cash flows related to certain fixed assets and construction in progress. An additional impairment provision of RR 3,687 million was recognised and included in line Depreciation and property, plant and equipment impairment of the statement of operation.

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.

Included in the impairment provision is RR 20,823 million related to items recorded as construction in progress, which currently are not planned to be completed and are therefore fully impaired.

Note 9. Other non-current assets

	30 September 2004	31 December 2003
Available-for-sale investments (carried at cost)	4,882	6,962
Available-for-sale investments (carried at fair value)	2,589	2,589
Advances to contractors	17,163	10,830
Restructured trade receivables (Net of allowance for doubtful debtors of RR 5,296 million as at 30 September 2004 and RR 5,051 million as at 31 December 2003)	3,846	2,936
Other (Net of allowance for doubtful debtors of RR 865 million as at 30 September 2004 and nil as at 31 December 2003)	4,135	2,883
	32,615	26,200

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 10: Cash and cash equivalents

	30 September 2004	31 December 2003
Cash at bank and in hand	23,330	19,982
Cash equivalents	15,326	9,856
Foreign currency accounts	186	2,140
	38,842	31,978

Cash equivalents comprise short term investments in bank promissory notes and certificates of deposit.

Note 11: Accounts receivable and prepayments

	30 September 2004	31 December 2003
Trade receivables (Net of allowance for doubtful debtors of RR 36,170 million as at 30 September 2004 and RR 40,527 million as at 31 December 2003)	40,383	43,590
Value added tax recoverable	27,576	24,445
Advances to suppliers and prepayments	17,895	14,577
Receivables from associates	339	151
Other receivables (Net of allowance for doubtful debtors of RR 8,514 million as at 30 September 2004 and RR 6,534 million as at 31 December 2003)	28,393	22,577
	114,586	105,340

At 30 September 2004 and 31 December 2003, the above other receivables balance included RR 11,928 million and RR 7,135 million of tax prepayments, respectively, which are to be settled against future tax liabilities.

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 9). The loss on restructuring is included in doubtful debtors expense.

For the nine months ended 30 September 2004: approximately 7 percent (nine months ended 30 September 2003: 6 percent) of the Group's accounts receivables were settled via non-cash settlements.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 12: Inventories

	30 September 2004	31 December 2003
Materials and supplies	26,556	24,443
Fuel production stocks	17,601	16,858
Other inventories	1,993	1,430
	46,150	42,731

The above inventory balances are recorded net of an obsolescence provision of RR 2,276 million and RR 2,036 million as at 30 September 2004 and 31 December 2003, respectively.

At 30 September 2004 and 31 December 2003, the inventory balance included RR 19,553 million and RR 18,200 million, respectively, of inventory pledged as collateral under loan agreements.

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	30 September 2004	31 December 2003
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.

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 of distribution as the net profit for the year. For 2003, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 24,605 million. However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

A dividend was declared in 2004 in respect of the year ended 31 December 2003 of RR 0.0469 per ordinary share (in 2003 in respect of 2002: RR 0.0337 per ordinary share) and RR 0.2283 per preference share (in 2003 in respect of 2002: RR 0.2916 per preference share).

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 13: Shareholders' equity (continued)

Fair value reserve. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 30 September 2004 was a debit of RR 4,954 million (31 December 2003: a debit of RR 4,848 million), and is included in retained earnings and other reserves.

Translation reserve. The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign subsidiaries, at 30 September 2004 was a debit of RR 263 million (31 December 2003: a debit of RR 350 million) and is included in retained earnings and other reserves.

Treasury shares. The Group periodically purchases and sells treasury shares. Treasury shares as at 30 September 2004 represent 350,740,321 (31 December 2003: 49,138,221) ordinary shares and 16,768,863 (31 December 2003: 16,768,863) preference shares.

	Cost as at 31 December 2003	Purchases and disposals, net	Cost as at 30 September 2004
Ordinary shares	300	2,500	2,800
Preference shares	55	-	55
	355	2,500	2,855

Note 14: Minority interest

	Nine months ended 30 September 2004	Nine months ended 30 September 2003
Opening balance, beginning of year	219,687	223,981
Change in fair value of available-for-sale investments	-	(126)
Share of net result	3,327	(5,149)
Acquisitions and changes in Group structure	1,853	1,226
Dividends	(2,131)	(1,824)
Closing balance, end of period	222,736	218,108

Note 15: Profit tax

Profit tax expense

	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Current profit tax charge	(2,026)	(15,054)	(770)	(11,596)
Deferred profit tax benefit / (charge)	2,481	1,727	(2,317)	(6,402)
Total profit tax benefit / (charge)	455	(13,327)	(3,087)	(17,998)

During the nine months ended 30 September 2004 most members of the Group were subject to profit tax rates of 24 percent on taxable profit.

In accordance with 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.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 15: Profit tax (continued)

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

	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
(Loss) / income before profit tax	(5,230)	30,757	(2,992)	29,454
Theoretical profit tax benefit / (charge) at an average statutory tax rate of 24 percent	1,255	(7,382)	718	(7,069)
Tax effect of items which are not deductible or assessable for taxation purposes:				
Tax interest and penalties release / (charge)	140	308	153	(73)
Other non-deductible and non-taxable items, net	(2,343)	(6,486)	(1,357)	(3,640)
Effect of statutory revaluation on tax base	641	1,235	(1,798)	(6,640)
Non-recognised deferred tax assets movements	174	(1,048)	677	2,916
Other	588	46	(1,480)	(3,492)
Total profit tax benefit / (charge)	455	(13,327)	(3,087)	(17,998)

In June 2002 RAO UES established a wholly-owned subsidiary FGC. RAO UES transferred property, plant and equipment into the charter capital of this subsidiary. In 2003 and 2004, RAO UES continued transferring property, plant and equipment into the charter capital of FGC. In 2003, RAO UES established Saratovskaya GES and Nizhegorodskaya GES, two wholly owned subsidiaries to perform electricity generation as separate legal entities. In 2004, Tulaenergo established a wholly-owned subsidiary Novomoskavskaya GRES. The value of the property, plant and equipment transferred by RAO UES and Tulaenergo 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 nine months ended 30 September 2004 is a deferred tax benefit of RR 1,385 million in respect of the revaluation of assets transferred to FGC, Saratovskaya GES, Nizhegorodskaya GES and Novomoskavskaya GRES prior to that date (for the nine months ended 30 September 2003 deferred tax benefit, resulted from transferring of property, plant and equipment into charter capital of FGC, amounted to RR 1,267 million).

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 expected to be applicable when the assets or liabilities will reverse.

Deferred profit tax liabilities

	30 September 2004	Movement for the period recognised in Statement of operations	31 December 2003
Trade receivables	(6,848)	1,591	(8,439)
Property, plant and equipment	63,679	(1,613)	65,292
Accounts payable	2,982	(1,070)	4,052
Inventories	(430)	(90)	(340)
Losses carried forward	(803)	114	(917)
Other	(2,933)	(1,180)	(1,753)
	55,647	(2,248)	57,895

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 15: Profit tax (continued)

Deferred profit tax assets

	30 September 2004	Movement for the period recognised in Statement of operations	31 December 2003
Trade receivables	2,369	(78)	2,447
Property, plant and equipment	10,148	159	9,989
Accounts payable	(777)	95	(872)
Inventories	103	4	99
Losses carried forward	693	371	322
Other	645	(24)	669
Deferred profit tax assets	13,181	527	12,654
Less: non-recognised deferred tax assets	(9,821)	(1,048)	(8,773)
	3,360	(521)	3,881

As at 30 September 2004 the Group has not recognized a deferred tax liability in respect of RR 57,629 million (31 December 2003: RR 55,872 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 the foreseeable future.

Note 16: Non-current debt

	Currency	Effective interest rate	Due	30 September 2004	31 December 2003
Central and regional government loans	US\$	LIBOR + 3.0%	2004 and thereafter	2,919	2,816
Central and regional government loans	RR	21.0% - 48.0%	2004 and thereafter	469	554
Bonds issued by subsidiaries	RR	10.0% - 18.0%	2005-2007	4,500	1,000
Bonds – RAO UES	RR	15.0%	2005	3,000	3,000
Bank debt from foreign banks	Euro	EURIBOR + 4.1%	2004-2005	587	1,723
Bank debt from foreign banks	US\$	LIBOR + 4.0%	2004-2007	1,517	1,714
Bank debt from foreign banks	US\$	LIBOR + 3.5%	2004 and thereafter	821	993
Bank debt from Russian banks	RR	10.0% - 16.0%	2004 and thereafter	4,214	2,460
Bank debt from Russian banks	US\$	LIBOR + 4.25%	2005	1,160	-
Other long-term debt				2,050	2,613
Total non-current debt				21,237	16,873
Less: current portion of non-current debt				(3,871)	(4,317)
				17,366	12,556

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 16: Non-current debt (continued)

Maturity table

	30 September 2004	31 December 2003
Due for repayment		
Between one and two years	7,427	6,164
Between two and five years	7,854	4,353
After five years	2,085	2,039
	17,366	12,556

Except as otherwise noted, the majority of the above bank debt is obtained at fixed 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 21,760 million (31 December 2003: RR 17,258 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.

Note 17: Other non-current liabilities

	30 September 2004	31 December 2003
Taxes payable	16,730	21,276
Trade payables	759	1,588
Other	6,143	6,386
Total other non-current liabilities	23,632	29,250
Less: current portion of restructured liabilities	(3,836)	(5,048)
	19,796	24,202

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 - 24 percent have been used in the estimate of the fair value of these liabilities at the date of restructuring.

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

The maturity profile is as follows:

	30 September 2004	31 December 2003
Between one and two years	2,567	4,572
Between two and five years	8,107	9,457
After five years	9,122	10,173
	19,796	24,202

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 18: Current debt and current portion of non-current debt

	Effective interest rate	30 September 2004	31 December 2003
Current debt	7.0% - 16.0%	66,847	46,179
Current portion of non-current debt		3,871	4,317
		70,718	50,496

Note 19: Accounts payable and accrued charges

	30 September 2004	31 December 2003
Trade payables	58,103	51,683
Accrued liabilities and other creditors	34,420	34,625
Bills of exchange payable	1,580	2,040
Dividends payable	2,308	466
Payables to associates	-	16
Current portion of trade payables and other creditors restructured to long-term	417	928
	96,828	89,758

For the nine months ended 30 September 2004, approximately 10 percent (the nine months ended 30 September 2003: 15 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 17. The effect of restructuring the trade payables is included in Note 23.

Accrued liabilities and other creditors as at 30 September 2004 include an accrual of RR 259 million for compensation to employees whose services are to be terminated during the course of the restructuring process (31 December 2003: RR 1,079 million). 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.

Note 20: Taxes payable

	30 September 2004	31 December 2003
Value added tax	19,010	21,568
Fines and interest	7,888	8,429
Profit tax	1,427	4,395
Property tax	2,335	2,110
Employee taxes	2,466	2,234
Other taxes	3,471	2,787
Current portion of taxes restructured to long-term	3,419	4,120
	40,016	45,643

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 20: Taxes payable (continued)

Included in the payable for value added tax is RR 15,825 which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2003: RR 16,649 million).

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 30 September 2004 the refinance rate was 13 percent (31 December 2003: 16 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 17. The gain on restructuring the taxes payable is included in Note 23.

For the nine months ended 30 September 2004, approximately 2 percent (the nine months ended 30 September 2003: 1 percent) of the Group's taxes payable were settled via non-cash settlements.

Note 21: Governmental assistance

During the three and nine months ended 30 September 2004 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 1,940 million and RR 3,680 million, respectively (three months ended 30 September 2003: RR 1,422 million; nine months ended 30 September 2003: RR 2,982 million) for certain entities in the Far East region and RR 427 million and RR 953 million for the three and nine months ended 30 September 2004, respectively (three months ended 30 September 2003: RR 381 million; nine months ended 30 September 2003: RR 1,050 million) for other Group entities. The assistance in respect of these periods has been recorded as revenue in the statement of operations.

Note 22. Other expenses

	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Rent	1,176	3,695	513	1,323
Consulting, legal and information services	945	2,735	755	1,771
Transportation services	1,015	2,408	310	974
Security services	796	2,210	402	1,271
Fines and interest, other than on taxes	634	2,037	310	1,849
Charges from Energonadzor and RSTs	655	1,785	703	1,923
Bank services	557	1,784	570	1,600
Charity expenses	760	1,497	348	1,310
Media-Holding REN-TV expenses	228	1,141	302	1,060
Connection services	337	945	293	941
Business trip expenses	354	849	259	631
Purchased heat	233	810	72	708
Expenses related to restructuring process	203	789	302	831
Labor protection costs	140	488	212	544
Other	9,348	26,543	5,954	17,041
	17,381	49,716	11,305	33,777

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 23: Net financing expenses

	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
Gain on restructured accounts payable and taxes payable	-	-	732	2,225
Interest expense	(5,564)	(11,975)	(4,136)	(10,778)
Foreign exchange (loss) / gain	(365)	349	85	814
	(5,929)	(11,626)	(3,319)	(7,739)

The discounting of restructured payable amounts gives rise to gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 1,592 million and RR 5,161 million of such amortisation was included in interest expense for the three and nine months ended 30 September 2004 (three months ended 30 September 2003: RR 1,971 million; nine months ended 30 September 2003: RR 5,879 million). Further information on the restructuring of accounts payable and taxes payable is contained in Notes 17, 19 and 20.

Note 24: Earnings per share

	Three months ended 30 September 2004	Nine months ended 30 September 2004	Three months ended 30 September 2003	Nine months ended 30 September 2003
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
Adjustment for weighted average number of treasury shares (thousands)	(115,081)	(82,418)	(66,160)	(183,877)
Weighted average number of ordinary and preference shares outstanding (thousands)	43,001,822	43,034,485	43,050,743	42,933,026
Net (loss) / income	(1,319)	14,103	(310)	16,605
(Loss) / earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	(0.03)	0.33	(0.01)	0.39

Note 25: Commitments

Sales commitments. The Group entered into a contract with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo, a contract with Energiameklarit Oy, a contract with Kazenergoresource and a contract with TPK Sirius.

The contract with Fortum is for the supply of 0.30 million MWh of electricity per year at Euro 17 per MWh, through to the end of 2008.

The contract with Energiameklarit Oy specifies the supply of a maximum of 0.55 million MWh of electricity for the year 2004 at the price in Euro at Nord Pool Spot effective at the hour of delivery. The contract came in force from 1 April 2004 and is valid till the notification of one of the parties under the contract on termination of obligations made in writing.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 25: Commitments (continued)

The contract with TOO Kazenergoresource specifies the supply of 1.44 million MWh of electricity per year. The price for electricity supplied is USD 22 per MWh for the period 1 July 2004 to 31 December 2004 and USD 24.7 per MWh since 1 January 2005. The contract shall be executed in USD or RR as agreed with the supplier. The contract expires in August 2008.

The contract with TPK Sirius specifies the supply of 15.33 million MWh of electricity for the period 26 May 2004 to 31 December 2013. The price for electricity supplied is USD 18 for the period 26 May 2004 to 31 December 2004. According to the contract terms the price of the actually supplied electrical power shall increase, if the actual hourly capacity and the quantity of the electrical power differ by more than 10% from the agreed figures. The price of the electrical power to be supplied is determined annually on the basis of the supplementary agreement. The contract shall be executed in USD.

Purchase commitment. In August 2003 the Group concluded an agreement with its electricity supplier, Ekibastuzskaya GRES-2, for the period 2003-2007. The quantity of electricity to be supplied is 6 million MWh per annum. The price for the period September 2004 to December 2005 is fixed in the amount of RR 276 per MWh. The average price for the period 1 January 2006 to 31 December 2007 will be defined by an additional agreement, but the average price will not vary by more than 10 percent from the latest price.

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 47,920 million at 30 September 2004 and RR 43,517 million at 31 December 2003.

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.

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

RAO UES Group

Notes to the Consolidated Interim Financial Statements for the nine months ended 30 September 2004

(in millions of Russian Roubles)

Note 26: Contingencies (continued)

As at 30 September 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

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

Note 27: Financial instruments and financial risk factors

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

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

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 (as disclosed in Note 16).

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 16. The Group has no significant interest-bearing assets.

Note 28: Subsequent events

Bonds. In December 2004, the Group issued 5 million bonds with a nominal value of RR 1,000 per bond. The bonds yield an effective interest of 8,8 percent and mature in December 2007. Interest is payable semi-annually.