RAO UES GROUP
IFRS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

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Independent Auditor's 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 June 2003 and the related interim statements of operations, changes in shareholders' equity and cash flows for the six month period then ended. These consolidated interim financial statements, as set out on pages 2 to 30, are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim financial statements based on our audit. The consolidated financial statements of the Group for the year ended 31 December 2002 and for the six month period ended 30 June 2002 were audited by another auditor whose reports dated 6 June 2003 and 31 October 2002 respectively expressed an unqualified opinion on those statements.

Except as described in the following paragraph, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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.

We were unable to obtain appropriate information supporting management's disclosure of the Group's acquisition of three companies in the Republic of Georgia subsequent to 30 June 2003 as discussed in note 5 to the consolidated interim financial statements. Management has informed us that the purchase contract contains a confidentiality clause, which prevents our access to the contract until 29 November 2003.

In our opinion, except for the effects of such adjustments or additional disclosures, if any, as might have been determined to be necessary had we been able to obtain appropriate information regarding the acquisition of the three companies in the Republic of Georgia, as described in the preceding paragraph, the consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2003, and the results of its operations, changes in shareholders' equity and cash flows for the six month period then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

ZAO KPMG

ZAO KPMG
Moscow, Russian Federation
31 October 2003

ZAO KPMG, a company registered under the Law of Russian Federation, is a member of KPMG International, a Swiss cooperative.

RAO UES Group

Consolidated Interim Balance Sheet as at 30 June 2003
(in millions of Russian Roubles)

	Notes	30 June 2003	31 December 2002
Assets			
Non-current assets			
Property, plant and equipment	8	860,317	863,688
Investments in associates	7	250	-
Deferred profit tax assets	15	7,836	9,122
Other non-current assets	9	29,730	25,342
Total non-current assets		**898,133**	**898,152**
Current assets			
Cash and cash equivalents	10	19,206	17,569
Accounts receivable and prepayments	11	105,938	92,971
Inventories	12	39,198	38,383
Loans issued		726	2,635
Other current assets		11,928	11,726
Total current assets		**176,996**	**163,284**
Total assets	6	**1,075,129**	**1,061,436**
Shareholders' equity and liabilities			
Shareholders' equity	13		
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		(361)	(770)
		154,745	154,336
Retained earnings and fair value reserve		428,202	412,079
Total shareholders' equity		**582,947**	**566,415**
Minority interest	14	**223,395**	**223,981**
Non-current liabilities			
Deferred profit tax liabilities	15	57,408	54,608
Non-current debt	16	9,115	13,461
Other non-current liabilities	17	27,891	26,872
Total non-current liabilities		**94,414**	**94,941**
Current liabilities			
Current debt and current portion of non-current debt	18	40,676	42,236
Accounts payable and accrued charges	19	87,818	84,337
Taxes payable	20	45,879	49,526
Total current liabilities		**174,373**	**176,099**
Total liabilities	6	**268,787**	**271,040**
Total shareholders' equity and liabilities		**1,075,129**	**1,061,436**

Chairman of the Management Board — Chubais A.B.

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

31 October 2003

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

RAO UES Group

Consolidated Interim Statement of Operations for the six months ended 30 June 2003
(in millions of Russian Roubles)

	Notes	Six months ended 30 June 2003	Six months ended 30 June 2002
Revenues			
Electricity		225,184	180,203
Heating		58,089	44,830
Governmental assistance	21	2,229	2,174
Other		15,345	13,948
Total revenues	6	**300,847**	**241,155**
Costs and other deductions			
Fuel expenses		85,213	63,324
Wages, benefits and payroll taxes		44,071	40,489
Purchased power		35,669	31,649
Depreciation	8	30,048	31,932
Repairs and maintenance		18,301	15,059
Taxes other than on income		10,104	13,045
Other materials		7,241	7,300
Electricity and heat distribution		2,482	1,707
Water usage expenses		2,351	2,011
Social expenditures		1,668	2,601
Doubtful debtors expense		2,037	1,045
Loss / (gain) on disposal of property, plant and equipment and investments		189	(84)
Other expenses		24,607	17,975
Total costs and other deductions		**263,981**	**228,053**
Income from operations	6	**36,866**	**13,102**
Share of income of associates		-	487
Monetary effects and financing items	22	(4,420)	2,944
Income before profit tax and minority interest		**32,446**	**16,533**
Total profit tax (charge) / benefit	15	(14,911)	7,205
Income before minority interest		**17,535**	**23,738**
Minority interest: share of net result	14	(620)	(4,949)
Net income		**16,915**	**18,789**
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	23	0.39	0.44

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31 October 2003

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RAO UES Group

Consolidated Interim Cash Flow Statement for the six months ended 30 June 2003
(in millions of Russian Roubles)

	Six months ended 30 June 2003	Six months ended 30 June 2002
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before profit tax	**32,446**	**16,533**
Adjustments to reconcile income before profit tax to net cash provided by operations:		
Depreciation	30,048	31,932
Doubtful debtors expense	2,037	1,045
Interest and gain on restructuring accounts payable and taxes payable	4,799	1,527
Share of income of associates, before profit tax	-	(487)
Loss / (gain) on disposal of property, plant and equipment and investments	189	(84)
Monetary effects on non-operating balances	-	(3,290)
Adjustment for non-cash investing activities	(5,058)	(4,366)
Other	(3)	-
Operating cash flows before working capital changes and profit tax paid	**64,458**	**42,810**
Working capital changes:		
Increase in accounts receivable and prepayments	(15,004)	(1,218)
Decrease / (increase) in other current assets	69	(5,945)
Decrease in loans issued	1,909	5,542
(Increase) / decrease in inventories	(815)	3,455
(Increase) / decrease in other non-current assets	(4,138)	4,592
Increase / (decrease) in accounts payable and accrued charges	1,601	(13,112)
Decrease in taxes payable, other than profits tax	(4,195)	(3,962)
Increase / (decrease) in other non-current liabilities	1,019	(318)
Profit tax paid (cash)	(13,107)	(13,783)
Profit tax paid (non-cash)	(132)	(139)
Net cash provided by operating activities	**31,665**	**17,922**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(23,018)	(14,144)
Proceeds from sale of property, plant and equipment	1,093	459
Purchases of investments, net	(81)	(132)
Net cash used for investing activities	**(22,006)**	**(13,817)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	73,669	57,667
Proceeds from issuance of non-current debt	335	7,294
Repayment of debt	(79,907)	(66,560)
Interest paid	(3,872)	(4,435)
Dividends paid to RAO UES shareholders	(12)	(329)
Dividends paid by Group to minority interest shareholders	(189)	(532)
Proceeds from share issuance	512	-
Proceeds from / (purchase) of treasury shares, net	1,442	(6)
Net cash used for financing activities	**(8,022)**	**(6,901)**
Effect of inflation on cash and cash equivalents	-	(1,093)
Increase / (decrease) in cash and cash equivalents	**1,637**	**(3,889)**
Cash and cash equivalents at the beginning of the period	**17,569**	**14,555**
Cash and cash equivalents at the end of the period	**19,206**	**10,666**

Chairman of the Management Board — Chubais A.B.

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

31 October 2003

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

RAO UES Group

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2003
(in millions of Russian Roubles)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and fair value reserve	Total shareholders' equity
At 1 January 2002	147,439	7,667	(762)	379,596	533,940
Net income	-	-	-	18,789	18,789
Dividends	-	-	-	(1,385)	(1,385)
Change in fair value of available-for-sale investments	-	-	-	360	360
Change in treasury shares, net	-	-	(8)	-	(8)
At 30 June 2002	147,439	7,667	(770)	397,360	551,696
At 1 January 2003	147,439	7,667	(770)	412,079	566,415
Net income	-	-	-	16,915	16,915
Dividends	-	-	-	(1,988)	(1,988)
Change in fair value of available-for-sale investments	-	-	-	467	467
Change in treasury shares, net	-	-	409	729	1,138
At 30 June 2003	147,439	7,667	(361)	428,202	582,947

Chairman of the Management Board — Chubais A.B.

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

31 October 2003

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

Note 1: The Group and its operations

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

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries as at 30 June 2003. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Dispatch Centre ("CDC") and Regional Dispatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

All member companies of the Group with the exception of RAO Nordic Oy are incorporated under the laws of the Russian Federation (the "state"). RAO Nordic Oy is incorporated and operates in Finland.

The Group performs the following major activities:

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

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

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

At 30 June 2003, the number of employees of the Group was approximately 589,000 (31 December 2002: 599,000).

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").

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

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

Relations with the state and current regulation. At 30 June 2003, the Russian Federation owned 52.7 percent of RAO UES, which represents 54.9 percent of the ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Energy Commission ("FEC"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in the Russian Federation.

Note 1: The Group and its operations (continued)

As described above and in Notes 2 and 25, the government's economic, social and other policies could have material effects on the operations of the Group.

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

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

- At the present stage, bills are being drafted for the specific legislative acts envisioned under the aforementioned laws on electric utilities reform according to the action plan related to electric utilities reform and adopted by the resolution of the Russian Federation government of 27 June 2003 No 865-r (p). RAO UES has been playing an active role in drafting these pieces of legislation.

- Early September 2003 the Russian Federation government issued the resolution on establishing the wholesale generating companies. According to the aforementioned resolution 10 generating companies (4 hydro generating companies and 6 heat generating companies), which will include the electric power plants owned by OAO RAO UES and its subsidiaries, will be established.

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

- The System Operator – OAO System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") – was established in June 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

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

- On 29 May 2003 the Board of Directors of RAO UES has approved a Concept of the Group's strategy for the period from 2003 through 2008. This document provides a detailed description of the major changes that are slated to take place in the Group during the electric utilities reform program, including the various stages in the process of establishing participant entities, based on the Group, in both the wholesale and retail electricity markets, and the key areas for further development of the organizations thereby being established.

Note 1: The Group and its operations (continued)

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

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

Note 2: Financial condition

At 30 June 2003, the Group's current assets exceeded its current liabilities by Russian Roubles ("RR") 2,623 million (in prior periods the Group's current liabilities exceeded its current assets - 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. However, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management has continued its collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 30 June 2003. 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 RECs do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an IFRS basis of accounting. As a result, tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

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

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

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

(in millions of Russian Roubles)

Note 3: Basis of presentation

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

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 RAO Nordic Oy which prepares its statutory financial statements in accordance with accounting principles accepted in Finland. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention method, except for revaluations of property, plant and equipment, and adjusted and reclassified for presentation in accordance with IFRS.

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

Inflation accounting. 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.

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Date	Index	Conversion Factor
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
30 June 2002	2,587,582	1.06
31 December 2002	2,730,154	1.00

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts were stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002.
- The appraisal values of property, plant and equipment and the impact of any impairment have been restated by applying relevant conversion factors beginning with the appraisal date together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002.

Note 3: Basis of presentation (continued)

- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 30 June 2002 were included in the statement of operations as a monetary gain or loss.

Note 4: Summary of significant accounting policies

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

A significant majority of the principal subsidiary Companies described in Note 5 were transferred to RAO UES by the 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.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by an enterprise. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in the statement of operations in the period in which they arise.

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

Loans issued. Loans issued are recognised initially at the fair value of the consideration given, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the borrowers when the loans were issued. Loans issued by the Group are measured at amortised cost. Amortised cost is the amount at which the loan was measured at initial recognition minus principal repayments plus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment.

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

Foreign currency. Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") at 30 June 2003 was RR 30.35: US$ 1.00 (31 December 2002: RR 31.78: US$ 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 is stated at depreciated replacement cost, based upon values determined by a third party valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation 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 circumstances used to determine an asset's recoverable amount.

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

Major renewals and improvements are capitalised and the assets replaced are retired. Borrowing costs are capitalised if they are directly attributable to constructed assets. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of an asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

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

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is put into use. For the property, plant and equipment which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The useful lives, in years, of assets by type of facility are as follows:

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

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

Note 4: Summary of significant accounting policies (continued)

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

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

Mutual settlements, barter and non-cash settlements. A portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements which are expected to be settled within 12 months are recorded as other current assets. These include "veksels" or "bills of exchange" which are negotiable debt obligations. The receivables and payables recorded in the consolidated 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, 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.

Note 4: Summary of significant accounting policies (continued)

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 (monetary effects and financing items) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

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

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. Specific rights on dissolution for preference shareholders are included in the calculation of minority interests.

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 through the end of the period. Revenue amounts are presented exclusive of value added tax.

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

Earnings per share. Preference shares are considered to be participating shares as their dividend may not be less than that given to ordinary shares. An 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 the statement of changes in shareholders' equity.

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

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

(in millions of Russian Roubles)

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 RAO Nordic Oy are incorporated and operate in Russia. RAO Nordic Oy is incorporated and operates in Finland.

Regional generation and distribution companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre			***South***		
Astrakhanenergo	49.0	49.0	Dagenergo	51.4	51.4
Belgorodenergo	49.0	65.3	Experimentalnaya TETS	74.9	100.0
Bryanskenergo	49.0	49.0	Kabbalkenergo	66.4	66.4
Ivenergo	49.7	56.6	Kalmenergo	96.4	96.4
Kalugaenergo	49.0	49.0	Karachaevo-Cherkesskenergo	100.0	100.0
Kostromaenergo	49.0	49.0	Kubanenergo	49.0	49.0
Kurskenergo	49.4	59.8	Rostovenergo	48.4	62.8
Lipetskenergo	49.0	49.0	Sevkavkazenergo	49.0	49.0
Mosenergo	50.9	50.9	Stavropolenergo	55.1	71.9
Orelenergo	49.5	49.2			
Ryazanenergo	49.0	49.0	***Ural***		
Smolenskenergo	48.7	59.3			
Tambovenergo	49.0	56.0	Chelyabenergo	49.0	58.1
Tulenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Kurganenergo	49.0	49.0
Vladimirenergo	49.0	49.0	Orenburgenergo	100.0	100.0
Volgogradenergo	49.0	49.0	Permenergo	49.0	64.4
Vologdaenergo	49.0	49.0	Sverdlovenergo	49.0	65.3
Voronezhenergo	49.0	65.3	Tumenenergo	100.0	100.0
Yarenergo	47.8	60.3	Udmurtenergo	49.0	55.4
North-West			***Siberia***		
Arkhenergo	49.0	59.1	Altaienergo	54.7	54.7
Karelenergo	100.0	100.0	Buryatenergo	47.0	47.0
Kolenergo	49.2	65.5	Chitaenergo	49.0	62.2
Komienergo	50.1	50.3	Khakasenergo	100.0	100.0
Lenenergo	49.0	57.4	Krasnoyarskenergo	51.8	51.8
Novgorodenergo	49.0	62.9	Kuzbassenergo	49.0	49.0
Pskovenergo	49.0	49.0	Omskenergo	49.0	49.0
Yantarenergo	100.0	100.0	Tomskenergo	52.0	59.9
Middle Volga			***East***		
Chuvashenergo	100.0	100.0	Amurenergo	53.1	53.1
Marienergo	64.4	70.1	Dalenergo	49.0	49.0
Mordovenergo	53.1	53.1	Geotherm	72.6	78.5
Nizhnovenergo	49.0	62.3	Khabarovskenergo	48.8	48.8
Penzaenergo	49.0	60.2	Kolymaenergo	93.4	93.4
Samaraenergo	49.0	56.3	Kamchatskenergo	49.0	49.0
Saratovenergo	49.0	49.0	Magadanenergo	49.0	49.0
Ulyanovskenergo	49.0	65.3	Sakhalinenergo	49.0	49.0
			Sakhaenergo	49.0	100.0
			Yakutskenergo	49.0	58.1

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Votin g %
Bureyskaya GES	75.1	76.2	Volzhskaya GES (Volzhsk)	83.3	83.3
Kabbalk GES	82.0	98.0	Volzhskaya GES (Zhigulevsk)	85.0	85.8
Kamskaya GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zaramagskie GES	88.7	90.6
Sayano-Shushenskaya GES	78.9	78.9	Zeiskaya GES	56.9	57.4
Sulakenergo	99.2	99.2	Zelenchugskie GES	97.3	97.3
Taimyrenergo	100.0	100.0			

Thermal generating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES –1	100.0	100.0	North-West Station	53.5	60.5
Cherepetskaya GRES	55.8	55.8	Novocherkasskaya GRES	100.0	100.0
Gusinoozerskaya GRES	100.0	100.0	Pechorskaya GRES	51.0	51.0
Konakovskaya GRES	51.0	51.0	Permskaya GRES	100.0	100.0
Kostromskaya GRES	51.0	51.0	Pskovskaya GRES	50.0	50.0
Krasnoyarskaya GRES –2	100.0	100.0	Ryazanskaya GRES	100.0	100.0
Kuban GRES	79.8	99.9	Shekinskie PGU	92.1	98.9
Kaliningradskaya TETS –2	63.2	63.2	Stavropolskaya GRES	51.0	51.0
Lutek	56.3	56.3	Troitskaya GRES	100.0	100.0
Nevinomysskaya GRES	100.0	100.0			

Construction companies

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

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Dispatch Centre	100.0	100.0	System Operator	100.0	100.0
Federal Grid Company	100.0	100.0	Media-Holding REN-TV	70.0	70.0
Insurance company LIDER	100.0	100.0	RAO Nordic Oy	60.0	60.0
Centre of Settlement			Inter RAO UES	60.0	60.0
Optimisation	100.0	100.0	Energy Centre	75.0	75.0

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

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

Note 5: Principal subsidiaries (continued)

In August 2001, the Group acquired a controlling interest in OOO Media-Holding REN-TV, an entity which holds television broadcasting equipment and licenses. This investment was acquired and held exclusively with a view to its subsequent disposal in the near future. In absence of completion of the disposal it has been consolidated with the effect from October 2002.

Subsequent to the reporting period end, the Group acquired a controlling interest in the following companies located in Georgia: JSC "AES Telasi", an entity which holds distribution assets, OOO "AES Mtkvari", an entity which holds electricity and heat generation assets. The Group also acquired 50% interest in OOO "AES Transenergy", which exports energy.

During the six months ended 30 June 2003 there were certain other changes in RAO UES' ownership percentage of several of its subsidiaries, which had an immaterial impact on the statement of operations.

Note 6: Segment information

Primary reporting segments - business segments. The Group is organised into four main business segments:

- ***"Transmission segment"*** this segment principally comprises RAO UES, FGC, SO-CDU and CDC, which maintain and operate the high voltage electricity transmission grid and perform electricity dispatch functions. Transmission fees are set by the FEC;
- ***"Energos segment"*** consists of regional electricity 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 RECs. Certain energos have surplus generation and sell electricity via FOREM. Tariffs in FOREM are set by the FEC;
- ***"Hydro and thermal generating stations segment"*** consists of entities that produce and sell electricity to energos through FOREM, at tariffs set by the FEC; and
- ***"Unallocated"*** consists of numerous insignificant segments including construction, and export generation and sales.

(in millions of Russian Roubles)

Note 6: Segment information (continued)

Six months ended 30 June 2003	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	33,298	287,019	31,271	17,543	-	369,131
Intra-group revenues	(31,898)	(4,747)	(25,352)	(6,287)	-	(68,284)
Net revenues	1,400	282,272	5,919	11,256	-	300,847
Segment income / (loss)	15,600	17,554	2,548	1,189	(25)	36,866
Capital expenditures	4,183	13,709	6,504	4,106	-	28,502
Depreciation and amortisation	3,933	22,009	3,053	1,053	-	30,048
Doubtful debtors expense / (release)	2	1,662	(239)	612	-	2,037

Six months ended 30 June 2002	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	20,781	235,188	19,347	9,626	-	284,942
Intra-group revenues	(19,897)	(3,638)	(16,618)	(3,634)	-	(43,787)
Net revenues	884	231,550	2,729	5,992	-	241,155
Segment income / (loss)	10,506	6,048	(5,331)	1,888	(9)	13,102
Capital expenditures	2,639	12,337	2,990	1,729	-	19,695
Depreciation and amortisation	4,018	23,279	3,238	1,397	-	31,932
Doubtful debtors expense / (release)	355	630	233	(173)	-	1,045

As at 30 June 2003	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	161,885	732,347	135,509	101,212	(56,074)	1,074,879
Associates	-	-	-	250	-	250
Total assets	161,885	732,347	135,509	101,462	(56,074)	1,075,129
Segment liabilities	6,515	141,245	32,728	126,656	(38,357)	268,787
Total liabilities	6,515	141,245	32,728	126,656	(38,357)	268,787

As at 31 December 2002	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	148,723	728,760	123,582	111,761	(51,390)	1,061,436
Associates	-	-	-	-	-	-
Total assets	148,723	728,760	123,582	111,761	(51,390)	1,061,436
Segment liabilities	3,157	141,351	30,517	126,357	(30,342)	271,040
Total liabilities	3,157	141,351	30,517	126,357	(30,342)	271,040

(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		Total assets		Capital expenditures	
	Six months ended 30 June 2003	Six months ended 30 June 2002	30 June 2003	31 December 2002	For six months ended 30 June 2003	For six months ended 30 June 2002
Transmission segment	33,298	20,781	161,885	148,723	4,183	2,639
Centre	92,554	71,042	247,404	250,076	4,954	4,195
North-West	34,796	27,812	75,817	71,477	2,060	1,662
Urals	70,679	58,388	191,131	189,214	2,231	2,557
Siberia	38,126	31,106	126,439	121,418	2,826	2,113
Middle Volga	32,042	24,652	65,175	66,101	1,048	914
East	31,366	25,757	105,636	99,553	5,763	3,369
South	22,123	18,136	64,949	65,214	2,026	1,419
	354,984	277,674	1,038,436	1,011,776	25,091	18,868
Unallocated	14,147	7,268	92,767	101,050	3,411	827
Consolidation adjustments	(68,284)	(43,787)	(56,074)	(51,390)	-	-
Total	300,847	241,155	1,075,129	1,061,436	28,502	19,695

Note 7: Related parties

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

	Six months ended 30 June 2002
Transmission fee income	350
Electricity revenues	72
Rental fee income	20
Purchased power expense	72

In late 2002 management re-assessed the level of influence that the Group had over the companies previously regarded as associates and determined that this no longer amounted to significant influence. Consequently, the investments in these companies, which had formerly been accounted for as associates were re-classified as non-current available-for-sale investments.

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

(in millions of Russian Roubles)

Note 7: Related parties (continued)

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

No fees, compensation or allowances was paid or accrued to members of the Board of Directors of RAO UES for their services in that capacity, or for attending Board meetings during six months ended 30 June 2003.

Salary, bonuses and other payments paid to members of the Management Board by the Group, included in wages, benefits and payroll taxes in the statement of operations, amounted to RR 56 million for the six months ended 30 June 2003 (six months ended 30 June 2002: RR 45 million).

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 2002	705,636	227,668	700,294	126,883	222,442	232,188	2,215,111
Additions	386	133	512	353	25,526	1,592	28,502
Transfers	5,839	3	2,675	798	(15,364)	6,049	-
Disposals	(1,065)	(10)	(1,026)	(105)	(2,379)	(1,701)	(6,286)
Closing balance as at 30 June 2003	710,796	227,794	702,455	127,929	230,225	238,128	2,237,327
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2002	(437,747)	(124,323)	(492,223)	(89,643)	(43,631)	(163,856)	(1,351,423)
Charge for the period	(7,577)	(3,933)	(8,257)	(2,224)	-	(8,057)	(30,048)
Transfers	(1,905)	-	(679)	(105)	3,417	(728)	-
Disposals	904	9	1,005	102	979	1,462	4,461
Closing balance as at 30 June 2003	(446,325)	(128,247)	(500,154)	(91,870)	(39,235)	(171,179)	(1,377,010)
Net book value as at 30 June 2003	264,471	99,547	202,301	36,059	190,990	66,949	860,317
Net book value as at 31 December 2002	267,889	103,345	208,071	37,240	178,811	68,332	863,688

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including generating stations under construction.

Depreciation is charged once an asset is available for service.

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

(in millions of Russian Roubles)

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:

	Six months ended 30 June 2003	Six months ended 30 June 2002
Non-cash acquisitions	5,483	5,551
Non-cash proceeds from the sale of property, plant and equipment	543	1,241

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

Impairment. For the six months ended 30 June 2003, management has assessed the adequacy of its existing impairment provision and concluded that the amount is appropriate. Accordingly, no further adjustment has been recorded. The impairment provision included in the accumulated depreciation balance as at 30 June 2003 is RR 717,819 million (31 December 2002: RR 753,073 million).

Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount for the impairment provision. In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions in the Russian Federation.

Included in the impairment provision is RR 17,300 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 June 2003	31 December 2002
Available-for-sale investments	12,659	12,409
Advances to contractors	11,044	8,551
Restructured trade receivables	3,810	3,633
(Net of allowance for doubtful debtors of RR 9,413 million as at 30 June 2003 and RR 8,976 million as at 31 December 2002)		
Other	2,217	749
	29,730	25,342

Note 10: Cash and cash equivalents

	30 June 2003	31 December 2002
Cash at bank and in hand	16,871	14,457
Cash equivalents	1,010	2,802
Foreign currency accounts	1,325	310
	19,206	17,569

Cash equivalents comprise short term investments in bank promissory notes.

(in millions of Russian Roubles)

Note 11: Accounts receivable and prepayments

	30 June 2003	31 December 2002
Trade receivables	41,379	37,984
(Net of allowance for doubtful debtors of RR 46,087 million as at 30 June 2003 and RR 47,509 million as at 31 December 2002)		
Value added tax recoverable	21,374	20,392
Advances to suppliers and prepayments	16,795	13,337
Other receivables	26,390	21,258
(Net of allowance for doubtful debtors of RR 6,264 million as at 30 June 2003 and RR 5,569 million as at 31 December 2002)		
	105,938	92,971

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 six months ended 30 June 2003, approximately 11 percent (the six months ended 30 June 2002: 19 percent) of the Group's accounts receivables were settled via non-cash settlements.

Note 12: Inventories

	30 June 2003	31 December 2002
Materials and supplies	25,756	24,980
Fuel production stocks	11,774	12,077
Other inventories	1,668	1,326
	39,198	38,383

The above inventory balances are recorded net of an obsolescence provision of RR 2,625 million and RR 2,281 million as at 30 June 2003 and 31 December 2002, respectively.

At 30 June 2003 and 31 December 2002, the inventory balance included RR 13,953 million and RR 11,238 million, respectively, of inventory pledged as collateral under loan agreements.

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	30 June 2003	31 December 2002
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.

(in millions of Russian Roubles)

Note 13: Shareholders' equity (continued)

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

On 7 May 1998 the law number 74-FZ "On the Peculiarities of Share Distribution of UES" was signed by the President of the Russian Federation. This law stipulates that a minimum of 51 percent of voting shares in RAO UES be held by the government of the Russian Federation and that foreign investors are limited to owning not more than 25 percent of the voting shares of the company. The practical implications of this foreign ownership limitation for RAO UES or its shareholders are unclear.

Dividends. The annual statutory accounts of the parent company, RAO UES, are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the net profit for the year. For 2002, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 31,427 million. 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 2003 in respect of the year ended 31 December 2002 of RR 0.0337 per ordinary share (in 2002 in respect of 2001: RR 0.0299 per ordinary share, RR 0.0260 per ordinary share unrestated) and RR 0.2916 per preference share (in 2002 in respect of 2001: RR 0.1364 per preference share, RR 0.1185 per preference share unrestated).

Fair value reserve. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 30 June 2003 was a debit of RR 3,758 million (31 December 2002: RR 4,225 million), and is included in retained earnings and fair value reserve.

Treasury shares. The Group periodically purchases and sells treasury shares. Treasury shares as at 30 June 2003 represent 49,138,221 (31 December 2002: 400,938,211) ordinary shares and 17,701,098 (31 December 2002: 17,701,098) preference shares.

	Cost as at 31 December 2002	Purchases and disposals, net	Cost as at 30 June 2003
Ordinary shares	709	(409)	300
Preference shares	61	-	61
	770	(409)	361

Note 14: Minority interest

	Six months ended 30 June 2003	Six months ended 30 June 2002
Opening balance, beginning of year	223,981	220,303
Change in fair value of available-for-sale investments	-	56
Share of net result	620	4,949
Acquisitions and changes in Group structure	618	195
Dividends	(1,824)	(1,398)
Closing balance, end of period	223,395	224,105

(in millions of Russian Roubles)

Note 15: Profit tax

Profit tax expense

	Six months ended 30 June 2003	Six months ended 30 June 2002
Current profit tax charge	(10,825)	(12,328)
Deferred profit tax (charge) / benefit	(4,086)	19,464
Share of associate profit tax benefit	-	69
Total profit tax (charge) / benefit	(14,911)	7,205

During the six months ended 30 June 2003 and during the year ended 31 December 2002, most members of the Group were subject to profit tax rates of 24 percent on taxable profit.

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

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

	Six months ended 30 June 2003	Six months ended 30 June 2002
Income before profit tax	32,446	16,533
Theoretical profit charge at an average statutory tax rate of 24 percent	(7,787)	(3,968)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax interest and penalties	(226)	(1,253)
Non-temporary elements of monetary (gains) / losses	-	(16,926)
Doubtful debtors release	-	(251)
Other non-deductible and non-taxable items, net	(2,283)	(5,771)
Inflation effect on deferred tax balance at beginning of the period	-	7,551
Effect of statutory revaluation on tax base	(4,842)	32,884
Non-recognised deferred tax assets movements	2,239	(4,175)
Other	(2,012)	(886)
Total profit tax (charge) / benefit	(14,911)	7,205

The non-temporary elements of monetary gains and losses reflected the effect of the theoretical tax charge on inflation with respect to non-monetary items of a non-temporary nature (e.g. shareholders' equity, minority interests and deferred profit tax liabilities). As further described in Note 3, effective from 1 January 2003 Group no longer applies the provision of IAS 29.

As described in Note 1, RAO UES established a wholly-owned subsidiary, FGC, to hold and manage the high voltage transmission assets. The value of the property, plant and equipment transferred to FGC by RAO UES was determined by a third party valuer. This valuation is used for Russian statutory and tax accounting purposes. Consequently, included within the effect of statutory revaluation for the period to 30 June 2003 is a deferred tax benefit of RR 1,267 million in respect of the revaluation of assets transferred to FGC prior to that date.

(in millions of Russian Roubles)

Note 15: Profit tax (continued)

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

Deferred profit tax liabilities

	30 June 2003	Movement for the period	31 December 2002
Trade receivables	(9,093)	841	(9,934)
Property, plant and equipment	62,701	2,248	60,453
Accounts payable	5,065	643	4,422
Inventories	(340)	(184)	(156)
Other	(925)	(748)	(177)
	57,408	2,800	54,608

Deferred profit tax assets

	30 June 2003	Movement for the period	31 December 2002
Trade receivables	4,321	(375)	4,696
Property, plant and equipment	12,346	(3,425)	15,771
Accounts payable	(1,568)	206	(1,774)
Inventories	84	43	41
Other	462	26	436
Deferred profit tax assets	15,645	(3,525)	19,170
Less non-recognised deferred tax assets	(7,809)	2,239	(10,048)
	7,836	(1,286)	9,122

Prior to 2002, the Group fully provided against the potential deferred profit tax assets as management did not believe it probable that the affected Group entities would have sufficient taxable profit in the future against which to realise the assets. However, as a result of improved expectations regarding future profitability, management now believe that it is probable that RR 7,836 million of the asset will be realised.

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

Deferred profit tax assets have not been recognised for the Group's unused profit tax losses either as at 30 June 2003 or 31 December 2002.

As at 30 June 2003 and 31 December 2002 the Group has not recognized a deferred tax liability in respect of RR 49,310 million temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in foreseeable future.

(in millions of Russian Roubles)

Note 16: Non-current debt

	Currency	Effective interest rate	Due	30 June 2003	31 December 2002
Central and regional government loans	US$	LIBOR + 3.0%	2003 and thereafter	2,882	2,633
Central and regional government loans	RR	21.0% - 35.0%	2003 and thereafter	942	927
Bonds issued by subsidiaries	RR / US$ *	8.0%	2003	2,860	4,202
Bonds – RAO UES	RR	15.0%	2005	3,000	3,000
Bonds – RAO UES	RR / US$ *	5.0%	2003	-	2,231
Bank debt from foreign banks	Euro	EURIBOR + 4.1%	2003-2005	2,020	2,470
Bank debt from foreign banks	US$	LIBOR + 4.0%	2003-2009	1,949	2,225
Bank debt from foreign banks	US$	LIBOR + 3.5%	2003-2009	1,109	1,251
Bank debt from Russian banks	RR	17.0% - 23.0%	2003 and thereafter	2,294	10,214
Bank debt from Russian banks	Euro	8.0% - 10.0%	2003 and thereafter	30	58
Other long-term debt				823	1,385
Total non-current debt				17,909	30,596
Less: current portion of non-current debt				(8,794)	(17,135)
				9,115	13,461

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

Maturity table

	30 June 2003	31 December 2002
Due for repayment		
Between one and two years	1,333	5,749
Between two and five years	5,791	6,164
After five years	1,991	1,548
	9,115	13,461

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

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

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

At the balance sheet date, the estimated fair value of total non-current debt (including the current portion) was RR 18,099 million (31 December 2002: RR 30,804 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(in millions of Russian Roubles)

Note 17: Other non-current liabilities

	30 June 2003	31 December 2002
Taxes payable	27,604	29,077
Trade payables	3,966	5,007
Other	4,303	3,191
Total other non-current liabilities	35,873	37,275
Less: current portion of non-current liabilities	(7,982)	(10,403)
	27,891	26,872

In accordance with Government Resolution No. 1002 dated 3 September 1999, most members of the Group have restructured taxes including fines and interest to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to five years. Based on the contractual dates of repayment, discount rates of 21 - 25 percent have been used in the estimate of the fair value of these liabilities.

The discounting of the restructured payable amounts gives rise to a gain, as disclosed in Note 22.

The maturity profile is as follows:

	30 June 2003	31 December 2002
Between one and two years	10,653	7,335
Between two and five years	11,042	10,313
After five years	6,196	9,224
	27,891	26,872

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

	Effective interest rate	30 June 2003	31 December 2002
Current debt	13.0% - 26.0%	31,882	25,101
Current portion of non-current debt		8,794	17,135
		40,676	42,236

Note 19: Accounts payable and accrued charges

	30 June 2003	31 December 2002
Trade payables	49,978	50,133
Accrued liabilities and other creditors	29,145	28,312
Bills of exchange payable	1,592	1,182
Dividends payable	4,287	398
Current portion of trade payables and other creditors restructured to long-term	2,816	4,312
	87,818	84,337

(in millions of Russian Roubles)

Note 19: Accounts payable and accrued charges (continued)

For the six months ended 30 June 2003, approximately 18 percent (six months ended 30 June 2002: 18 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 22.

Accrued liabilities and other creditors as at 30 June 2003 includes an accrual of RR 1,390 mln for compensation to employees whose services are to be terminated during the course of the restructuring process (31 December 2002: RR 1,690 mln). 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 June 2003	31 December 2002
Value added tax	20,479	21,717
Fines and interest	8,913	8,205
Profit tax	2,286	4,396
Property tax	2,455	2,308
Employee taxes	3,092	2,602
Turnover taxes	492	2,029
Other taxes	2,996	2,178
Current portion of taxes restructured to long-term	5,166	6,091
	45,879	49,526

Included in the payable for value added tax is RR 17,290 million which only become payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2002: RR 17,325 million).

Substantially all accrued taxes above, excluding the amounts which have been restructured, incur interest at the refinance rate of the Central Bank of the Russian Federation, if overdue. As at 30 June 2003 the refinance rate was 16 percent (31 December 2002: 21 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 22.

For the six months ended 30 June 2003, approximately 1 percent (six months ended 30 June 2002: 1 percent) of the Group's taxes payable were settled via non-cash settlements.

Note 21: Governmental assistance

During the six months ended 30 June 2003 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 1,560 million (six months ended 30 June 2002: RR 1,609 million) for certain entities in the Far East region and RR 669 million for the six months ended 30 June 2003 (six months ended 30 June 2002: RR 565 million) for other Group entities. The assistance in respect of these periods has been recorded as revenue in the statement of operations.

(in millions of Russian Roubles)

Note 22: Monetary effects and financing items

	Six months ended 30 June 2003	Six months ended 30 June 2002
Gain on restructuring accounts payable and taxes payable	1,655	7,170
Monetary gain	-	5,991
Imputed interest income	188	898
Interest expense	(6,992)	(9,595)
Foreign exchange gain / (loss)	729	(1,520)
	(4,420)	2,944

The discounting of restructured payable amounts gives rise to gains. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 3,908 million of such amortisation was included in interest expense for the six months ended 30 June 2003 (six months ended 30 June 2002: RR 5,098 million). Further information on the restructuring of accounts payable and taxes payable is contained in Notes 17, 19 and 20.

Imputed interest income is recorded as a result of the amortisation of the discount recognised in December 2001 on loans issued at that date to major suppliers of Group at below market interest rates.

Note 23: Earnings per share

	Six months ended 30 June 2003	Six months ended 30 June 2002
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(243,711)	(417,886)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,873,192	42,699,017
Net income	16,915	18,789
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	0.39	0.44

Note 24: Commitments

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

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

Purchase commitment. In May 2002 the Group concluded a framework agreement with its electricity supplier, Lietovus Energiya, for the period 2002-2004. The quantity of electricity to be supplied is 6.2 mln MWh and 5.4 mln MWh for the years 2003 and 2004 respectively. The average price for the period 1 May 2002 to 1 May 2004 is fixed. The average price for the period 1 May 2004 to 31 December 2004 will be defined by an additional agreement. The Group's total purchase commitments for the period 2003 – 2004 amount to US$ 90 million or RR 2,734 million (at 31 December 2002 – US$ 137 million or RR 4,358 million).

Note 24: Commitments (continued)

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 54,544 million at 30 June 2003 and RR 44,014 million at 31 December 2002.

Note 25: Contingencies

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

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

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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

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

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

Note 26: 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.

Note 26: Financial instruments and financial risk factors (continued)

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 24, and foreign currency denominated debt and Russian Rouble denominated debt linked to US$ currency movements, as disclosed in Note 16.

Interest rate risk. As discussed in Note 16, except as otherwise noted, the majority of interest rates on remaining debt are variable. Interest rates on Russian Rouble denominated debt are reset when the underlying Central Bank re-financing rate changes. Assets are generally non-interest bearing.