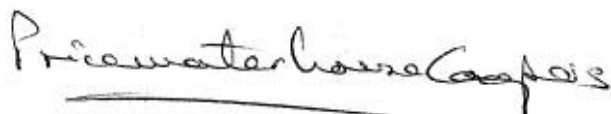


**RAO UES GROUP**  
**IAS CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2001**

**AUDITORS' REPORT**

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

1. We have audited the accompanying consolidated interim balance sheet of RAO UES and its subsidiaries (the "Group") as at 30 September 2001, the related consolidated interim statements of operations for the three and nine months then ended, and the related consolidated interim statements of cash flows and of changes in shareholders' equity for the nine months then ended. These consolidated interim financial statements, set out on pages 1 through 32, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated interim financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated interim financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as at 30 September 2001, and the results of its operations for the three and nine months then ended, and its cash flows for the nine months then ended, in accordance with International Accounting Standards.



Moscow, Russian Federation  
29 March 2002

# RAO UES Group

## Consolidated Interim Balance Sheet as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001)

	Notes	30 September 2001	31 December 2000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	728,465	744,809
Investments in associates	9	4,451	4,295
Other non-current assets	3,10	20,093	22,120
<b>Total non-current assets</b>		<b>753,009</b>	<b>771,224</b>
<b>Current assets</b>			
Cash and cash equivalents	11	6,917	8,674
Accounts receivable and prepayments	12	101,367	114,101
Inventories	13	39,777	39,286
Other current assets		5,303	7,504
<b>Total current assets</b>		<b>153,364</b>	<b>169,565</b>
<b>Total assets</b>		<b>906,373</b>	<b>940,789</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital			
Ordinary shares (nominal value RR 20,521 million)		122,965	122,965
Preference shares (nominal value RR 1,038 million)		6,394	6,394
Treasury shares		(636)	(636)
		128,723	128,723
Retained earnings and fair value reserve		304,843	279,224
<b>Total shareholders' equity</b>		<b>433,566</b>	<b>407,947</b>
<b>Minority interest</b>	15	178,947	170,842
<b>Non-current liabilities</b>			
Deferred profits tax liabilities	16	68,678	91,867
Non-current debt	3,17	13,192	14,070
Other non-current liabilities	21	19,945	5,345
<b>Total non-current liabilities</b>		<b>101,815</b>	<b>111,282</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt	18	19,757	13,471
Accounts payable and accrued charges	3,19	106,626	130,781
Taxes payable	20	65,662	106,466
<b>Total current liabilities</b>		<b>192,045</b>	<b>250,718</b>
<b>Total shareholders' equity and liabilities</b>		<b>906,373</b>	<b>940,789</b>

Chairman of the Management Board

Chubais A.B.

First Deputy Chairman of the Management Board

Melamed L.B.

29 March 2002



## RAO UES Group

### Consolidated Interim Statement of Operations for the three and nine months ended 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001)

Notes	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
<b>Revenues</b>				
Electricity	63,708	203,012	55,958	171,947
Heating	5,497	44,313	5,444	38,883
Transmission fees	241	695	707	1,806
Governmental assistance	22	823	991	2,206
Other	3,689	14,912	8,002	21,801
<b>Total revenues</b>	<b>73,958</b>	<b>265,228</b>	<b>71,102</b>	<b>236,643</b>
<b>Costs and other deductions</b>				
Fuel expenses	17,930	74,483	16,808	65,602
Wages and payroll taxes	16,162	44,541	12,272	38,146
Purchased power	14,379	34,243	7,421	23,333
Depreciation and amortisation	8	13,158	11,503	35,867
Repairs and maintenance	8,555	20,892	6,825	18,995
Taxes other than on income	4,635	17,611	5,446	23,332
Other materials	3,412	11,152	3,080	13,603
Social expenditures	1,385	3,577	1,035	3,431
Doubtful debtors (release) / expense	(6,627)	(8,076)	1,433	1,746
(Gain) / loss on disposal of fixed assets and investments	(745)	(856)	758	621
Other expenses, net	5	7,628	9,901	17,737
<b>Total costs and other deductions</b>	<b>79,872</b>	<b>262,005</b>	<b>76,482</b>	<b>242,413</b>
<b>(Loss) / income from operations</b>	<b>(5,914)</b>	<b>3,223</b>	<b>(5,380)</b>	<b>(5,770)</b>
Share of (loss) / income of associates	9	(168)	400	440
<b>(Loss) / income before monetary effects and taxation</b>	<b>(6,082)</b>	<b>3,459</b>	<b>(4,980)</b>	<b>(5,330)</b>
Monetary effects and financing items	23	12,791	3,350	13,342
<b>Income / (loss) before taxation</b>	<b>6,709</b>	<b>26,912</b>	<b>(1,630)</b>	<b>8,012</b>
Total tax benefit / (charge)	16	28,203	(5,377)	(7,712)
<b>Income / (loss) before minority interest</b>	<b>34,912</b>	<b>36,803</b>	<b>(7,007)</b>	<b>300</b>
Minority interest: share of net result	15	(7,304)	3,306	2,290
<b>Net income / (loss)</b>	<b>27,608</b>	<b>28,458</b>	<b>(3,701)</b>	<b>2,590</b>
<b>Earnings / (loss) per share – basic and diluted (in Russian Roubles)</b>				
• Ordinary	24	0.65	0.66	(0.09)
• Preference		0.65	0.66	-

Chairman of the Management Board

Chubais A.B.

First Deputy Chairman of the Management Board

Melamed L.B.

29 March 2002



# RAO UES Group

## Consolidated Interim Cash Flow Statement for the nine months ended 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001)

	Nine months ended 30 September 2001	Nine months ended 30 September 2000
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
<b>Income before taxation</b>	<b>26,912</b>	<b>8,012</b>
Adjustments to reconcile income before taxation to net cash provided by operations:		
Depreciation and amortisation	38,355	35,867
Doubtful debtors (release) / expense	(8,076)	1,746
Interest expense and gain on restructuring accounts payable, taxes payable and debt	(12,100)	1,955
Share of income of associates, before tax	(236)	(440)
(Gain) / loss on disposal of fixed assets and investments	(856)	621
Monetary effects on non-operating balances	(2,955)	(6,811)
Adjustment for non-cash investing activities	(4,021)	(28,335)
Other	(230)	2
<b>Operating income before working capital changes and profits tax paid</b>	<b>36,793</b>	<b>12,617</b>
Working capital changes:		
Decrease in accounts receivable and prepayments	20,809	18,750
Decrease / (increase) in other current assets	2,201	(2,454)
Increase in inventories	(491)	(790)
Increase in other non-current assets	(3,071)	(1,122)
Decrease in accounts payable and accrued charges	(22,809)	(22,571)
(Decrease) / increase in taxes payable, other than profits tax	(24,776)	5,219
Increase/ (decrease) in other non-current liabilities	15,745	(61)
Profits tax paid (cash)	(16,697)	(6,068)
Profits tax paid (non-cash)	(516)	(1,812)
<b>Net cash provided by operating activities</b>	<b>7,188</b>	<b>1,708</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Additions to property, plant and equipment	(15,040)	(5,033)
Proceeds from sale of property, plant and equipment	1,056	1,269
Net proceeds from sale of investments	(47)	(224)
<b>Net cash used for investing activities</b>	<b>(14,031)</b>	<b>(3,988)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of current debt	47,790	35,702
Proceeds from issuance of non-current debt	978	7,014
Reduction of debt	(44,161)	(37,624)
Effect of inflation on financing activities	3,977	3,212
Interest paid	(1,560)	(1,176)
Dividends paid	(916)	(1,386)
Purchase of treasury shares	-	(29)
<b>Net cash provided by financing activities</b>	<b>6,108</b>	<b>5,713</b>
Effect of inflation on cash and cash equivalents	(1,022)	(529)
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(1,757)</b>	<b>2,904</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>8,674</b>	<b>2,270</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,917</b>	<b>5,174</b>

Chairman of the Management Board

Chubais A.B.

First Deputy Chairman of the Management Board

Melamed L.B.

29 March 2002



**RAO UES Group****Consolidated Interim Statement of Changes in Shareholders' Equity for the nine months ended 30 September 2001**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and fair value reserve	Total shareholders' equity
<b>At 1 January 2000</b>	122,965	6,394	(610)	277,586	406,335
Net income	-	-	-	2,590	2,590
Dividends	-	-	-	(769)	(769)
Other (see Note 5)	-	-	-	1,846	1,846
Purchase of treasury shares, net	-	-	(29)	-	(29)
<b>At 30 September 2000</b>	122,965	6,394	(639)	281,253	409,973
<b>At 31 December 2000, as previously reported</b>	122,965	6,394	(636)	279,224	407,947
Adoption of IAS 39 (see Note 3)	-	-	-	(2,200)	(2,200)
<b>At 31 December 2000, as adjusted</b>	122,965	6,394	(636)	277,024	405,747
Net income	-	-	-	28,458	28,458
Dividends	-	-	-	(986)	(986)
Change in fair value of available-for-sale investments	-	-	-	347	347
<b>At 30 September 2001</b>	122,965	6,394	(636)	304,843	433,566

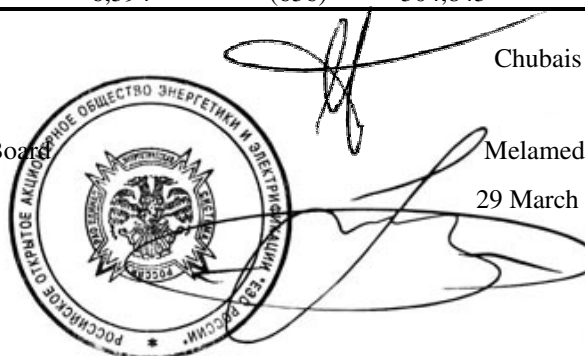
Chairman of the Management Board

Chubais A.B.

First Deputy Chairman of the Management Board

Melamed L.B.

29 March 2002



## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### Note 1: The Group and its operations

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

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries and associates as at 30 September 2001. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are coordinated by the Central Despatch Centre ("CDC") and Regional Despatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

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

The Group performs the following major activities:

- **High voltage network:** The high voltage network connects all but a few regions of the Russian Federation. RAO UES maintains this network and charges a fee to users of the network. The CDC, a 100 percent owned subsidiary of RAO UES, is responsible for system despatch and the Federal Wholesale Market of Electricity and Capacity ("FOREM");
- **Regional generation and distribution:** RAO UES has ownership interest in more than 70 regional power companies ("energos"), comprised of generation, distribution and sales activities. These ownership interests range from 14 percent to 100 percent; and
- **Stand-alone electricity generation:** Major generation stations produce electricity and sell it direct to FOREM. The majority of these sales are within the Group.

At 30 September 2001, the number of employees of the Group was approximately 682,000 (31 December 2000: 681,000).

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

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

**Industry changes.** Under Government Resolution No. 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulatory market will be set up for, initially, sales of 5-15% of the electricity generated. After 2004 all sales of electricity generated will become subject to free trade.

The industry's structure will also change. In accordance with the "Action Plan for the 1<sup>st</sup> Stage of the Electric Utilities Reform," approved by Government Directive No. 1040-p dated 3 August 2001, the following is being undertaken:

- Trade System Administrator ("TSA") – in November 2001, a non-commercial partnership Trade System Administrator of the Wholesale Electricity Market UES was put in place. The Group holds a 50% vote in the Supervisory Council of the TSA;
- Federal Grid Company ("FSK") – on 25 January 2002, the Board of Directors of RAO UES approved participation of the RAO UES, as the only founder, in the establishment of OAO FSK UES. FSK is being established based on all grid assets owned by RAO UES. The statutory registration of FSK is scheduled for the second quarter of 2002;
- System Operator – on 25 January 2002, the Board of Directors of RAO UES approved the basic principles for the establishment of OAO System Operator – Central Dispatch Unit with the Unified Energy System (OAO SO-CDU UES), the basic principles of putting together its assets and the major stages for putting System Operator in place. It is planned to incorporate this wholly-owned subsidiary during the second quarter of 2002;

## **RAO UES Group**

### **Notes to the Consolidated Interim Financial Statements as at 30 September 2001**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### **Note 1: The Group and its operations (continued)**

- RAO UES has prepared proposals on the guidelines for establishing wholesale generating companies as well as the justification of a listing of the power stations included therein. At present, ministries and government agencies of the Russian Federation are considering these proposals. Further, consultations are being held with heads and representatives of the regions whose power stations are earmarked for integration within the wholesale generating companies. It is planned that during the second quarter of 2002 a Government resolution will be passed the guidelines, and a list and structure of the wholesale generating companies; and
- The subsidiaries and associates of RAO UES have already taken steps to prepare for the reform of the regional generation and distribution companies (the "Energos"). For the purposes of considering and approving the Energo reform projects, a Project Committee for Reform under the Board of Directors of RAO UES has been put in place. The beginning of active changes to these subsidiaries and associates is scheduled for the end of the second quarter 2002.

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

**Relations with the state.** At 30 September 2001, the Russian Federation owned 52.7 percent of RAO UES, which represents 54.9 percent of the ordinary shares issued. As discussed in Note 14, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Energy Commission ("FEC"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed by regulations both specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from the IAS basis of accounting. In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases which are less than required.

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in the Russian Federation. As part of the Russian Federation's continuing efforts to collect taxes, Governmental Resolution Number 1 was issued on 5 January 1998 and amended on 17 July 1998. Except for certain governmental and other entities, this resolution allows electric power suppliers, including Group entities, to discontinue the supply of electricity and heat to delinquent customers.

As described above and in Note 26, the government's economic, social and other policies could have material effects on the operations of the Group.

#### **Note 2: Financial condition**

At 30 September 2001, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 38,681 million (31 December 2000: RR 81,153 million). During the period, and subsequently, the Group improved its financial position, largely through better cash collections and the restructuring of trade and tax liabilities to long term. The effects of restructuring of accounts and taxes payable are described in Notes 19 through 21 and 28.



## **RAO UES Group**

### **Notes to the Consolidated Interim Financial Statements as at 30 September 2001**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### **Note 2: Financial condition (continued)**

Management has significantly improved cash collections. However, there still remains a significant amount of uncollected accounts receivable from earlier periods. Management continues to aggressively implement collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 30 September 2001. The Group has provided against doubtful debtors, as further described in Note 12.

The Group is affected by government policy through control of tariffs and other factors. In recent years the Regional Energy Commissions have not always permitted tariff increases in line with inflation and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs under an IAS basis of accounting. As a result tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment.

The Group is experiencing difficulties raising finance for the necessary investment in generation, transmission and distribution assets. However, the Group has undertaken several measures designed to enable it to make such investments in the future, including actively participating in the formulation of a restructured electricity industry in the Russian Federation. The sector restructuring is further described in Note 1. Furthermore, the Group is actively pursuing additional funds from outside investors. While management cannot accurately predict the impact of the current restructuring in the power sector, it does not believe that it will adversely impact the Group's financial position or its ability to meet its debt obligations.

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

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

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

As part of its financial restructuring efforts, subsequent to period end, the Group has taken on additional long-term debt, as described in Note 28. The ability to repay this debt in accordance with its terms and continue to meet other cash obligations will be dependent on various factors including: continued efforts to collect old outstanding debtors; further restructuring of current liabilities or long term debt; obtaining additional debt financing; and ultimately real increases in tariffs.

#### **Note 3: Basis of presentation**

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention method, except for revaluations of property, plant and equipment, and adjusted and reclassified for presentation in accordance with IAS.

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 3: Basis of presentation (continued)

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

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992. The indices used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 30 September 2001, and the respective conversion factors are:

<u>Date</u>	<u>Index</u>	<u>Conversion Factor</u>
31 December 1996	594,110	3.83
31 December 1997	659,403	3.45
31 December 1998	1,216,400	1.87
31 December 1999	1,661,481	1.37
31 December 2000	1,995,909	1.14
30 June 2001	2,252,024	1.01
30 September 2001	2,276,863	1.00

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

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 30 September 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 September 2001;
- The appraisal values of property, plant and equipment and the impact of any impairment have been restated by applying relevant conversion factors beginning with the appraisal date together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 30 September 2001) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the statements of operations and of cash flows are restated by applying appropriate conversion factors; and
- the effect of inflation on the Group's net monetary position is included in the statement of operations as a net monetary gain.

The statement of operations includes a net monetary gain of RR 140 million and RR 11,893 million for the three and nine months ended 30 September 2001, respectively (three months ended 30 September 2000: monetary gain of RR 3,973 million; nine months ended 30 September 2000: monetary gain of RR 15,878 million) because on average the Group had net monetary liabilities during this period. Since 30 September 2001, inflation has continued.

As at 31 December 2001 the CPI was 2,371,482 (1988 = 100), representing inflation of 4.16 percent since 30 September 2001.

**Adoption of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").** With effect from 1 January 2001, the Group has adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised below, and further information is disclosed in Note 4.

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 3: Basis of presentation (continued)

	Total effect to items measured Increase / (decrease)	Deferred profits tax liabilities Increase / (decrease)	Minority interests Increase / (decrease)	Retained earnings and other reserves Increase / (decrease)
Available-for-sale investments	(3,099)	-	-	(3,099)
Accounts payable and taxes payable	(2,742)	934	909	899
		934	909	(2,200)

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

#### Note 4: Summary of significant accounting policies

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

A significant majority of principal subsidiary Companies described in Note 5 were transferred to RAO UES by the Russian Federation on and after its incorporation into a joint stock company. These transfers represented a reorganisation of assets under common control and, accordingly, are accounted for in a manner similar to uniting of interests from the date of privatisation of each Group entity.

All material inter-group balances and transactions have been eliminated. Separate disclosure is made of minority interests. Certain non-material subsidiaries have not been consolidated.

**Associated enterprises.** Investments in associated enterprises are accounted for using the equity method of accounting. Associated enterprises are entities over which RAO UES is deemed to exercise significant influence but which it does not control.

**Investments.** At 1 January 2001 the Group adopted IAS 39. Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Available-for-sale investments are included on the balance sheet in other non-current assets and other current assets.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value management makes assumptions that are based on market conditions existing at each balance sheet date.

All purchases and sales of investments are recognised on the settlement date, which is the date that an asset is delivered to or by an enterprise. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in retained earnings and 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.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### Note 4: Summary of significant accounting policies (continued)

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

**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 September 2001 was RR 29.39:US\$ 1.00 (31 December 2000: RR 28.16:US\$ 1.00). Exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Commonwealth of Independent States.

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

**Property, plant and equipment.** Property, plant and equipment as at 30 September 2001 is stated at depreciated replacement cost, based upon values determined by third party valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

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

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

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

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

Type of facility	Years
Electricity and heat generation	50
Electricity transmission	40
Electricity distribution	40
Heating networks	25
Other	15

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### Note 4: Summary of significant accounting policies (continued)

Social assets are excluded from the consolidated financial statements as they are not expected to result in future economic benefits to the Group. However, costs for social responsibilities are expensed as incurred.

**Cash and cash equivalents.** Cash comprises cash in hand and cash deposited in banks. Cash equivalents comprise short-term investments that may be readily converted into cash and have a maturity of three months or less.

The statement of cash flows has been prepared in accordance with IAS 7 "Cash Flow Statements" and has been restated for the effects of inflation, in accordance with IAS 29. The Group relies to some extent on non-cash transactions. Investing activities and financing activities, as disclosed in the statement of cash flows, represent actual cash transactions. The total of operating activities also represents actual cash flow from operations. However, individual items within this part of the statement of cash flows are stated inclusive of both cash and non-cash transactions. Management believes that the benefits of providing individual cash items within operating activities is outweighed by the cost of preparation.

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

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

**Value added tax on purchases and sales.** Value added tax of 20 percent is applied to the majority of purchases and sales. Value added tax is reclaimable against current value added tax obligations upon payment and receipt of goods or services rendered. These obligations are recorded net of the reclaimed value added tax on purchases. Value added tax on purchases for which either payment has not been made or goods have not been received is recorded as an asset in the balance sheet.

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

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

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

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### 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. RAO UES does not own any preference shares in subsidiaries.

**Pension and post-employment benefits.** Group entities' mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

**Environmental liabilities.** Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

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

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

**Earnings per share.** Preference shares are considered to be participating shares as their dividend may not be less than that given to ordinary shares. Earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period. Losses are not allocated to preference shares in this calculation.

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

**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 as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 5: Principal subsidiaries

The following subsidiary enterprises have been consolidated into the Group's financial statements. All subsidiaries are incorporated and operate in Russia.

#### Regional generation and distribution companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
<b>Centre</b>			<b>South</b>		
Astrakhanenergo	48.7	48.7	Dagenergo	51.1	51.1
Belgorodenergo	49.0	65.3	Experimentalnaya TETS	80.3	100.0
Ivenergo	49.7	56.6	Kabbalkenergo	52.2	63.9
Kalugaenergo	49.0	49.0	Kalmenergo	96.4	96.4
Kostromaenergo	49.0	65.3	Karachaevo-Cherkesskenergo	100.0	100.0
Kurskenergo	49.4	59.8	Kubanenergo	49.0	49.0
Lipetskenergo	49.0	49.0	Rostovenergo	48.4	62.8
Mosenergo	50.9	50.9	Sevkavkazenergo	49.0	49.0
Nizhnovenergo	49.0	62.3	Stavropolenergo	55.1	71.9
Orelenergo	49.5	60.6			
Ryazanenergo	49.0	49.0	<b>Ural</b>		
Smolenskenergo	48.7	59.3	Chelyabenergo	49.0	58.1
Tambovenergo	49.0	56.0	Kirovenergo	48.2	64.0
Tulaenergo	49.0	49.0	Kurganenergo	49.0	53.8
Tverenergo	49.0	65.3	Orenburgenergo	100.0	100.0
Vladimirenergo	49.1	49.1	Permenergo	49.0	64.4
Volgogradenergo	49.0	61.3	Sverdlovennergo	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			
<b>North-West</b>			<b>Siberia</b>		
Arkhenergo	49.0	59.1	Altaienergo	54.7	72.2
Bryanskenergo	49.0	65.2	Buryatenergo	47.6	47.6
Karelennergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	65.5	Khakasenergo	100.0	100.0
Komienergo	50.1	50.4	Krasnoyarskenergo	51.8	66.4
Lenenergo	49.0	57.4	Kuzbassenergo	49.0	49.0
Novgorodenergo	49.0	62.9	Omskenergo	49.0	60.4
Pskovenergo	49.0	49.0	Tomskenergo	52.0	59.9
Yantarenergo	100.0	100.0			
<b>Middle Volga</b>			<b>East</b>		
Chuvashenergo	100.0	100.0	Amurenergo	52.9	60.7
Marienergo	64.4	70.1	Dalenergo	49.0	65.3
Mordovenergo	53.2	53.2	Khabarovskenergo	49.0	61.0
Penzaenergo	49.0	60.2	Kolymaenergo	99.8	99.8
Samaraenergo	49.2	56.3	Kamchatskenergo	49.0	59.2
Saratovenergo	49.8	64.6	Magadanenergo	49.0	64.4
Ulyanovskenergo	49.0	65.3	Sakhalinenergo	49.0	49.0
			Yakutskenergo	49.0	58.1

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 5: Principal subsidiaries (continued)

##### *Hydrogenerating companies*

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	77.0	78.5	Taimyrenego	100.0	100.0
Kabbalk GES	75.2	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.6
Kaskad Verhnevolzhskih GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Sayano-Shushenskaya GES	78.9	82.8	Zaramagskie GES	90.0	92.3
Sulakenergo	99.2	99.2	Zeiskaya GES	56.9	72.5
			Zelenchugskie GES	69.2	69.2

##### *Thermal generating companies*

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES -1	100.0	100.0	Nevinomysskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	North-West Station	53.5	60.5
Gusinoozerskaya GRES	100.0	100.0	Novocherkasskaya GRES	100.0	100.0
Konakovskaya GRES	51.0	51.0	Pechorskaya GRES	51.0	51.0
Kostromskaya GRES	51.0	51.0	Permskaya GRES	100.0	100.0
Krasnoyarskaya GRES -2	100.0	100.0	Pskovskaya GRES	50.0	50.0
Kuban GRES	79.8	99.9	Ryazanskaya GRES	100.0	100.0
Kaliningradskaya TETS -2	86.6	86.6	Shekinskie PGU	92.1	98.9
Lutek	56.3	56.3	Stavropolskaya GRES	51.0	51.0
			Troitskaya GRES	100.0	100.0

##### *Construction companies*

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Boguchangesstroi	66.1	70.2	Cherkeigesstroi	100.0	100.0
Bureyagesstroi	100.0	100.0	Zeyagesstroi	100.0	100.0

##### *Other*

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Despatch Centre	100.0	100.0	Neftianoy Dom	75.0	75.0
Centre of Settlement Optimisation	100.0	100.0			

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

During the nine months ended 30 September 2000, the Group regained control over its subsidiary Kuzbassenergo, as the result of the cessation of bankruptcy proceedings. Previously this entity was recorded as a cost investment. Since regaining control this entity has been consolidated into the Group. As a consequence of regaining control over Kuzbassenergo a surplus of RR 5,345 million, being the difference between the Group's share of net assets and the cost of the investment, has been reflected within other expenses, net in the statement of operations.



## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### Note 5: Principal subsidiaries (continued)

RAO UES holds voting interests of 66.4 percent and 58.1 percent in Krasnoyarskenergo and Yakutskenergo, respectively. Since the privatisation process of the industry, RAO UES transferred, on an annual basis, part of their voting rights to the respective local governments of these regions. Through the ceding of part of its voting rights RAO UES held a reduced voting interest of 32.9 percent and 34.4 percent in Krasnoyarskenergo and Yakutskenergo, respectively and accounted for these entities as associates. From 31 December 2000, RAO UES ceased to cede any of its voting rights and has consolidated these entities as subsidiaries from that date.

In 2000, RAO UES transferred two thermal power stations to Mosenergo in exchange for shares in a new share issue. As a result RAO UES increased both its ownership and voting interest in Mosenergo from 47.5 percent to 50.9 percent. A surplus of RR 1,846 million, being the difference between the increase in the Group's share if the net assets of Mosenergo and the cost of the thermal power stations transferred, was reflected within the statement of changes in shareholders' equity.

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

During the period ended 30 September 2001 there were certain other changes in RAO UES' ownership percentage of several of its subsidiaries, which had an immaterial impact on the statement of operations.

#### Note 6: Segment information

**Primary reporting segments - business segments.** The Group is organised into four main business segments; this classification is consistent with the disclosure in the prior year's consolidated financial statements.

- **“RAO UES segment”** this segment maintains and operates the high voltage electricity transmission grid and controls FOREM. Transmission fees paid by energos are set by the FEC. RAO UES also participates in joint ventures with energos and other entities to construct new power stations. These are included within this segment. As a consequence of the inclusion of these additional entities, this segment does not equal the amounts in the IAS stand-alone financial statements of the parent company;
- **“Energos segment”** consists of regional electricity & heat generation and distribution. The majority of electricity generated by energos is sold within the regions in which the energo operates at tariffs set by REC. Certain energos have surplus generation and sell electricity to FOREM. Tariffs in FOREM are set by the FEC;
- **“Hydro and thermal generating stations segment”** consists of entities that sell electricity to energos through FOREM, at tariffs set by the FEC; and
- **“Construction segment”** consists of construction entities.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 6: Segment information (continued)

Three months ended 30 September 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	8,545	71,373	8,754	1,943	-	90,615
Inter-group revenues	(6,600)	(2,610)	(5,641)	(1,806)	-	(16,657)
<b>Total revenues</b>	<b>1,945</b>	<b>68,763</b>	<b>3,113</b>	<b>137</b>		<b>73,958</b>
Segment income / (loss)	2,089	(6,108)	285	(1,577)	(603)	(5,914)
Share of income of associates	-	(168)	-	-	-	(168)
Monetary effects and financing items						12,791
Income before taxation						6,709
Total tax benefit						28,203
Income before minority interest						34,912
Minority interest: share of net result						(7,304)
<b>Net income</b>						<b>27,608</b>
Capital expenditures	1,255	5,115	1,919	197	-	8,486
Depreciation and amortisation	2,116	9,949	1,071	22	-	13,158
Doubtful debtors expense / (release)	62	(5,975)	(936)	222	-	(6,627)
<b>Net income</b>						<b>27,608</b>
Nine months ended 30 September 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	26,658	256,857	28,450	3,050	-	315,015
Inter-group revenues	(20,093)	(4,370)	(23,518)	(1,806)	-	(49,787)
<b>Total revenues</b>	<b>6,565</b>	<b>252,487</b>	<b>4,932</b>	<b>1,244</b>		<b>265,228</b>
Segment income / (loss)	7,837	(3,897)	169	(1,925)	1,039	3,223
Share of income of associates	-	236	-	-	-	236
Monetary effects and financing items						23,453
Income before taxation						26,912
Total tax benefit						9,891
Income before minority interest						36,803
Minority interest: share of net result						(8,345)
<b>Net income</b>						<b>28,458</b>
Capital expenditures	4,068	14,143	5,682	782	-	24,675
Depreciation and amortisation	6,456	27,726	4,082	91	-	38,355
Doubtful debtors expense / (release)	412	(6,811)	(1,798)	121	-	(8,076)

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 6: Segment information (continued)

Three months ended 30 September 2000:						Consolidation adjustments	Total
	RAO UES	Energos	Hydro and thermal generating stations	Construction			
Revenues	6,260	69,595	6,933	682	-	83,470	
Inter-group revenues	(4,301)	(2,326)	(5,741)	-	-	(12,368)	
<b>Total revenues</b>	<b>1,959</b>	<b>67,269</b>	<b>1,192</b>	<b>682</b>	<b>-</b>	<b>71,102</b>	
Segment income / (loss)	3,159	(5,778)	(2,252)	235	(744)	(5,380)	
Share of income of associates	-	400	-	-	-	400	
Monetary effects and financing items						3,350	
Loss before taxation						(1,630)	
Total tax charge						(5,377)	
Loss before minority interest						(7,007)	
Minority interest: share of net result						3,306	
<b>Net loss</b>						<b>(3,701)</b>	
Capital expenditures	1,031	5,916	2,392	172	-	9,511	
Depreciation and amortisation	513	9,316	1,667	7	-	11,503	
Doubtful debtors (release) / expense	(264)	1,750	(164)	(55)	166	1,433	
<b>Nine months ended 30 September 2000:</b>							
	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total	
Revenues	20,332	228,011	23,947	833	-	273,123	
Inter-group revenues	(13,568)	(3,085)	(19,827)	-	-	(36,480)	
<b>Total revenues</b>	<b>6,764</b>	<b>224,926</b>	<b>4,120</b>	<b>833</b>	<b>-</b>	<b>236,643</b>	
Segment income / (loss)	2,622	(7,195)	(7,786)	(45)	6,634	(5,770)	
Share of income of associates	-	440	-	-	-	440	
Monetary effects and financing items						13,342	
Income before taxation						8,012	
Total tax charge						(7,712)	
Income before minority interest						300	
Minority interest: share of net result						2,290	
<b>Net income</b>						<b>2,590</b>	
Capital expenditures	2,451	18,104	4,466	839	-	25,860	
Depreciation and amortisation	6,421	25,856	3,514	76	-	35,867	
Doubtful debtors (release) / expense	(49)	739	998	(30)	88	1,746	

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 6: Segment information (continued)

As at 30 September 2001	Hydro and thermal generating stations					Consolidation adjustments	Total
	RAO UES	Energos	Construction				
Segment total assets	317,153	631,432	114,998	19,278	(180,939)	901,922	
Associates	-	4,451	-	-	-	4,451	
Total assets	317,153	635,883	114,998	19,278	(180,939)	906,373	
Segment liabilities	43,472	224,599	47,275	5,704	(27,190)	293,860	
<b>As at 31 December 2000</b>							
Segment total assets	315,025	667,922	118,849	8,368	(173,670)	936,494	
Associates	-	4,163	-	132	-	4,295	
Total assets	315,025	672,085	118,849	8,500	(173,670)	940,789	
Segment liabilities	54,108	285,501	53,307	2,659	(33,575)	362,000	

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

	Revenue			
	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
RAO UES segment	8,545	26,658	6,260	20,332
Centre	24,596	88,551	26,091	80,599
North-West	8,241	29,886	6,655	24,590
Urals	19,043	66,319	19,632	62,394
Siberia	9,794	34,813	8,357	26,618
Mid-Volga	5,702	20,046	5,689	20,258
East	7,649	26,001	4,970	19,647
South	7,045	22,741	5,816	18,685
	90,615	315,015	83,470	273,123
Consolidation adjustments	(16,657)	(49,787)	(12,368)	(36,480)
Total	73,958	265,228	71,102	236,643

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 6: Segment information (continued)

	Total assets		Capital expenditures			
	30 September 2001	31 December 2000	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
RAO UES segment	317,153	315,025	1,255	4,068	1,031	2,451
Centre	232,918	245,272	1,313	5,288	2,404	6,809
North-West	67,974	72,712	891	3,316	1,209	3,284
Urals	171,343	175,140	1,367	2,957	1,487	4,203
Siberia	106,992	102,974	1,158	2,798	908	2,870
Mid-Volga	51,393	54,360	183	730	254	1,388
East	83,144	90,893	1,463	3,611	1,204	2,728
South	56,395	58,083	856	1,907	1,014	2,127
	1,087,312	1,114,459	8,486	24,675	9,511	25,860
Consolidation adjustments	(180,939)	(173,670)	-	-	-	-
Total	906,373	940,789	8,486	24,675	9,511	25,860

#### Note 7: Related parties

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

The commission and the interest charged by Eurofinance to RAO UES was RR 31 million and RR 63 million for the three and nine months ended 30 September 2001, respectively. Commission and interest approximate market rates. As at 30 September 2001 RAO UES did not hold promissory notes of Eurofinance (31 December 2000: RR 954 million). The balance outstanding due to RAO UES from Eurofinance was RR 480 million and RR 201 million as at 30 September 2001 and 31 December 2000, respectively.

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

	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
Electricity revenues	24	41	89	331
Purchased power	91	152	18	582
Transmission fee income	107	344	348	1,009
Rental fee income	10	29	12	36

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

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 7: Related parties (continued)

Salary and bonuses paid to members of the management board by RAO UES, included in wages and payroll taxes in the statement of operations, amounted to RR 14 million and RR 37 million for the three and nine months ended 30 September 2001, respectively. In addition, certain amounts were paid by RAO UES' subsidiaries.

**Sales contracts.** The Group holds two export contracts with a shareholder of one of the energos (see Note 25).

#### Note 8: Property, plant and equipment

##### Appraised value or cost

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2000	555,108	174,611	568,290	100,726	219,153	181,278	1,799,166
Additions	372	93	230	6	21,915	2,059	24,675
Transfers	4,882	273	2,298	598	(11,212)	3,161	-
Disposals	(2,327)	(58)	(2,444)	(233)	(2,360)	(2,494)	(9,916)
Closing balance as at 30 September 2001	558,035	174,919	568,374	101,097	227,496	184,004	1,813,925

##### Accumulated depreciation

Opening balance as at 31 December 2000	(336,197)	(84,072)	(383,583)	(63,448)	(74,486)	(112,571)	(1,054,357)
Charge for the period	(9,556)	(4,490)	(10,437)	(2,709)	-	(11,163)	(38,355)
Transfers	(2,361)	-	(1,245)	(289)	5,423	(1,528)	-
Disposals	1,914	32	1,764	166	1,535	1,841	7,252
Closing balance as at 30 September 2001	(346,200)	(88,530)	(393,501)	(66,280)	(67,528)	(123,421)	(1,085,460)
Net book value as at 31 December 2000	218,911	90,539	184,707	37,278	144,667	68,707	744,809
Net book value as at 30 September 2001	211,835	86,389	174,873	34,817	159,968	60,583	728,465

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

Depreciation is charged once an asset is available for service.

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

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

	Nine months ended 30 September 2001	Nine months ended 30 September 2000
Non-cash acquisitions	6,629	20,430
Non-cash proceeds from the sale of property, plant and equipment	2,464	2,948

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 8: Property, plant and equipment (continued)

**Impairment.** For the period ended 30 September 2001, management has assessed the adequacy of its existing impairment provision and concluded that the amount is appropriate. Accordingly, no further adjustment has been recorded. Real discount rates approximating to 21 percent reducing over time to 9 percent have been used in the estimate of recoverable value through discounted cash flows. The impairment provision included as an increase of the accumulated depreciation balance as at 30 September 2001 is RR 712,699 million.

Management cannot predict with certainty the length or impact of the current economic difficulties, nor the impact of future changes in fiscal, political and tariff setting policies. 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 Russia.

#### Note 9: Investments in associates

The Group has investments in the following associated enterprises that have been accounted for under the equity method in the consolidated financial statements based upon the percentage of ownership held by the RAO UES Group in such enterprises. All associated enterprises are incorporated and operate in Russia.

Enterprise name	30 September 2001		31 December 2000	
	% Ownership	% Voting	% Ownership	% Voting
Bashkirenergo	21.3	22.3	21.3	22.3
Novosibirskenergo	14.2	16.9	14.2	16.9

	Bashkir- energo	Novosibirsk- energo	Other	Total
Carrying value as at 31 December 2000	2,949	1,214	132	4,295
Share of income / (loss) of associates	391	(23)	(132)	236
Share of associates' tax (charge) / benefit	(112)	32	-	(80)
Carrying value as at 30 September 2001	3,228	1,223	-	4,451

The Group's interest in associated enterprises is shown in the consolidated balance sheet at its proportion of net assets attributable to the Group at the date of transfer from the Russian Federation plus the Group's share of post-acquisition earnings and losses and other changes in the enterprise's equity, restated in terms of purchasing power of the Russian Rouble as at 30 September 2001.

#### Note 10. Other non-current assets

	30 September 2001	31 December 2000
Available-for-sale investments	15,179	20,919
Restructured trade receivables, net	3,129	-
Other	1,785	1,201
	20,093	22,120

Certain trade receivables were restructured during the period and as a result are due to be realised more than one year from the balance sheet date. The non-current portion of these restructured trade receivables amounts to RR 3,129 million (net of allowance for doubtful debtors of RR 7,543 million) as at 30 September 2001 (as at 31 December 2000: nil). The loss on restructuring is included in doubtful debtors expense.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 11: Cash and cash equivalents

	30 September 2001	31 December 2000
Cash at bank and in hand	6,567	7,257
Cash equivalents	-	1,324
Foreign currency accounts	350	80
Restricted cash	-	13
	6,917	8,674

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

#### Note 12: Accounts receivable and prepayments

	30 September 2001	31 December 2000
Trade receivables (Net of allowance for doubtful debtors of RR 57,813 million as at 30 September 2001 and RR 88,096 million as at 31 December 2000)	47,725	60,697
Value added tax recoverable	19,242	21,034
Other receivables (Net of allowance for doubtful debtors of RR 6,726 million as at 30 September 2001 and RR 7,420 million as at 31 December 2000)	16,251	15,993
Advances to suppliers	16,046	14,430
Receivables from associates	240	1,054
Prepayments	1,863	893
	101,367	114,101

Management has determined the allowances for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 22 – 25 percent, reducing over time to 17 – 14 percent, have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements.

For the nine months ended 30 September 2001, approximately 26 percent (nine months ended 30 September 2000: 34 percent) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Accounts receivable and prepayments are stated at fair value.



## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 13: Inventories

	30 September 2001	31 December 2000
Fuel production stocks	12,783	8,750
Materials and supplies	24,693	28,353
Other inventories	2,301	2,183
	39,777	39,286

The above inventory balances are recorded net of an obsolescence provision of RR 2,270 million and RR 2,019 million as at 30 September 2001 and 31 December 2000, respectively.

#### Note 14: Shareholders' equity

##### Share Capital

	Number of shares issued and fully paid	30 September 2001	31 December 2000
Ordinary shares	41,041,753,984	122,965	122,965
Preference shares	2,075,149,384	6,394	6,394
		129,359	129,359

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

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

On 7 May 1998 the law number 74-FZ "On the Peculiarities of Share Distribution of UES" was signed by the President of the Russian Federation. This law stipulates that a minimum of 51.0 percent of voting shares in RAO UES be held by the government of the Russian Federation and that foreign investors are limited to owning not more than 25.0 percent of the voting shares of the company. The practical implications of this foreign ownership limitation for the Company or its shareholders are unclear.

**Dividends.** The annual statutory accounts of the parent company, RAO UES, are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the net profit for the year. For 2000, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 6,413 million (uninflated). However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly, management believes at present it would be not appropriate to disclose an amount for the distributable reserves in these financial statements.

A dividend was declared in 2001 in respect of the year ended 31 December 2000 of RR 0.0203 per ordinary share (RR 0.0200 per ordinary share uninflated) (in respect of 1999: RR 0.0179 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0751 per preference share (RR 0.0738 per preference share uninflated) (in respect of 1999: RR 0.0503 per preference share, RR 0.0367 per preference share uninflated). Preference dividends outstanding were RR 16 million as at 30 September 2001 (31 December 2000: RR 18 million).

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 14: 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 2001 was a debit of RR 2,752 (31 December 2000: nil), and is included in retained earnings and fair value reserve.

**Treasury shares.** Treasury shares as at 30 September 2001 represent 400,718,589 (31 December 2000: 400,442,692) ordinary shares and 17,587,446 (31 December 2000: 17,540,420) preference shares purchased and held by the Group, at cost.

The Group periodically purchases and sells such treasury shares.

	Cost as at 31 December 2000	Purchases and disposals, net	Cost as at 30 September 2001
Ordinary shares	586	-	586
Preference shares	50	-	50
	636	-	636

#### Note 15: Minority interests

	Nine months ended 30 September 2001	12 months ended 31 December 2000
Opening balance	170,842	157,460
Share of net result	8,345	524
Adoption of IAS 39 (see Note 3)	909	-
Acquisitions and changes in Group structure (see Note 5)	(133)	13,194
Dividends	(1,016)	(336)
Closing balance	178,947	170,842

#### Note 16: Taxes

##### Tax expense

	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
Current profits tax charge	(3,189)	(14,152)	(3,041)	(9,487)
Deferred profits tax benefit / (charge)	1,881	(5,145)	(2,055)	2,311
Effect of tax rate reduction on deferred taxes	29,268	29,268	-	-
Share of associate tax charge (see Note 9)	243	(80)	(281)	(536)
<b>Total tax benefit / (charge)</b>	<b>28,203</b>	<b>9,891</b>	<b>(5,377)</b>	<b>(7,712)</b>

**Deferred profit tax.** Most members of the Group were subject to profits tax rates of 35 percent on taxable profits from 1 January 2001. A few members of the Group operate in regions that have reduced profits tax rates. As a result of the changes in the Russian tax legislation which were enacted in August 2001, effective 1 January 2002, the profit tax rate has been changed to 24 percent. Deferred tax assets and liabilities are measured at the rate which is applicable for when the asset or liability will reverse: 35% for amounts prior to 1 January 2002 and 24% thereafter.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 16: Taxes (continued)

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

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

	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
<b>Income / (loss) before taxation</b>	6,709	26,912	(1,630)	8,012
Theoretical tax (charge) / benefit at an average statutory tax rate of 35% (2000: 30%)	(2,348)	(9,419)	489	(2,404)
Tax effect of items which are not deductible or assessable for taxation purposes:				
Net non-deductible expenses	(942)	(3,011)	(1,396)	(1,440)
Non-temporary elements of monetary (gains) / losses	(2,280)	(28,971)	(8,151)	(25,033)
Doubtful debtors expense	1,969	2,477	(430)	(524)
Tax interest and penalties	(784)	(2,765)	55	(2,228)
Inflation effect on deferred tax balance at beginning of the period	892	11,338	3,461	10,631
Effect of tax rate reduction on deferred taxes	29,268	29,268	-	-
Temporary difference on statutory revaluation of tax base	(37)	6,013	(184)	4,499
Non-recognised deferred tax assets movements	3,823	7,654	1,617	9,783
Other	(1,358)	(2,693)	(838)	(996)
<b>Total tax benefit / (charge)</b>	<b>28,203</b>	<b>9,891</b>	<b>(5,377)</b>	<b>(7,712)</b>

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

Differences between IAS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes.

#### Deferred profits tax liability

	30 September 2001	Movement for the period	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Trade receivables	2,047	(3,602)	(2,148)	-	7,797
Property, plant and equipment	63,938	5,581	(27,074)	-	85,431
Accounts payable	3,121	2,530	(109)	934	(234)
Inventories	(627)	62	136	-	(825)
Other	199	574	(73)	-	(302)
	<b>68,678</b>	<b>5,145</b>	<b>(29,268)</b>	<b>934</b>	<b>91,867</b>

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

#### Note 16: Taxes (continued)

##### Deferred profits tax asset

	30 September 2001	Movement for the period	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Trade receivables	639	512	124	-	3
Property, plant and equipment	11,762	(3,693)	(3,620)	-	19,075
Accounts payable	(679)	(795)	44	-	72
Inventories	78	(2)	(2)	-	82
Other	512	(137)	(85)	-	734
	12,312	(4,115)	(3,539)	-	19,966
Less non-recognised deferred tax asset	(12,312)	4,115	3,539	-	(19,966)
	-	-	-	-	-

A deferred profits tax asset has not been recognised for the Group's unused profits tax losses either as at 30 September 2001 or 31 December 2000.

#### Note 17: Non-current debt

	Currency	Effective interest rate	Due	30 September 2001	31 December 2000
Central and regional government loans	RR	21% - 35%	2001 and thereafter	3,085	3,475
Bank debt in Russian banks	RR	21% - 35%	2001 and thereafter	630	822
Eurobond	US\$	8%	2002	4,563	4,988
Bonds issued by subsidiaries	RR / US\$ *	8%	2003	3,715	3,941
Bonds – RAO UES	RR / US\$ *	7%	2002-2003	3,000	3,422
Bank debt in foreign banks	Euro	8% - 10%	2001 and thereafter	1,322	1,284
Bank debt in Russian banks	Euro	8% - 10%	2001 and thereafter	158	299
Other long-term debt				658	590
Total non-current debt				17,131	18,821
Less: current portion of non-current debt				(3,939)	(4,751)
				13,192	14,070

\* 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 September 2001	31 December 2000
<b>Due for repayment</b>		
Between one and two years	9,106	1,490
Between two and five years	3,331	12,025
After 5 years	755	555
	13,192	14,070

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

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

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#### Note 17: Non-current debt (continued)

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

At the balance sheet date, the fair value of non-current debt was RR 16,258 million, which is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

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

	Effective interest rate	30 September 2001	31 December 2000
Current debt	19% - 35%	15,818	8,720
Current portion of non-current debt		3,939	4,751
		19,757	13,471

#### Note 19: Accounts payable and accrued charges

	30 September 2001	31 December 2000
Trade payables	68,157	101,005
Current portion of trade payables restructured to long-term	10,383	-
Bills of exchange payable	622	2,594
Payables to associates	407	59
Dividends payable	1,003	499
Accrued liabilities and other creditors	26,054	26,624
	106,626	130,781

In the nine months ended 30 September 2001, approximately 29 percent (nine months ended 30 September 2000: 43 percent) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Restructured trade payables which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 21. The gain on restructuring the trade payables is included in Note 23.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

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#### Note 20: Taxes payable

	30 September 2001	31 December 2000
Fines and interest	21,043	33,112
Value added tax	19,659	37,470
Turnover taxes	8,106	12,335
Employee taxes	6,589	7,595
Profits tax	3,566	6,973
Property tax	2,581	2,172
Other taxes	2,877	6,809
Current portion of taxes restructured to long-term	1,241	-
	65,662	106,466

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

- in Value added tax – RR 9,643 million (31 December 2000: RR 11,457 million); and
- in Turnover taxes – RR 757 million (31 December 2000: RR 832 million).

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

Restructured taxes which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 21. The gain in restructuring the taxes payable is included in Note 23.

Since 30 September 2001 Group entities have restructured a further RR 9,340 million of the balances above.

For the nine months ended 30 September 2001, approximately 3 percent (nine months ended 30 September 2000: 23 percent) of the Group's settlements of taxes payable were settled via non-cash settlements.

#### Note 21: Other non-current liabilities

	30 September 2001	31 December 2000
Taxes payable	13,325	-
Trade payables	15,572	-
Other	2,672	5,345
Total other non-current liabilities	31,569	5,345
Less: current portion of restructured liabilities	(11,624)	-
	19,945	5,345

In accordance with Government Resolution No. 1002 dated 3 September 1999 most members of the Group have restructured taxes to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the tax payables becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to 5 years. Based on the contractual dates of repayment, discount rates of 20 – 25 percent, reducing over time to 14 – 16 percent, have been used in the estimate of the fair value of these liabilities.

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

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

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#### Note 21: Other non-current liabilities (continued)

The maturity profile is as follows:

	30 September 2001	31 December 2000
Between one and two years	7,313	5,345
Between two and five years	6,392	-
After 5 years	6,240	-
	19,945	5,345

#### Note 22: Governmental assistance

During the three and nine months ended 30 September 2001 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 639 million and RR 1,658 million, respectively (three months ended 30 September 2000: RR 645 million; nine months ended 30 September 2000: RR 1,731 million), for certain entities in the Far East region and RR 184 million and RR 638 million for the three and nine months ended 30 September 2001, respectively (three months ended 30 September 2000: RR 346 million; nine months ended 30 September 2000: RR 475 million) for other Group entities. The assistance in respect of these periods has been recorded as revenue to the statement of operations.

#### Note 23: Monetary effects and financing items

	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
Monetary gain	140	11,893	3,973	15,878
Interest expense	(1,880)	(3,791)	(755)	(1,955)
Foreign exchange (loss) / gain	(103)	(540)	132	(581)
Gain on restructuring accounts payable and taxes payable	14,634	15,891	-	-
	12,791	23,453	3,350	13,342

The discounting of the restructured payable amounts gives rise to a gain. The discount is amortized over the period of the restructuring as an expense. The information on the restructuring of the accounts payable and taxes payable is contained in Notes 19 - 21.

## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

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#### Note 24: Earnings per share

Earnings per share is calculated by dividing the net income attributable to shareholders after the deduction of the declared dividend to Preference Shareholders by the weighted average number of ordinary and preference shares outstanding during the period, excluding the average number of shares purchased by the Group and held as treasury shares. Preference shares do not participate in losses and are therefore excluded from the calculation of loss per share.

	Three months ended 30 September 2001	Nine months ended 30 September 2001	Three months ended 30 September 2000	Nine months ended 30 September 2000
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	n/a	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(418,015)	(418,256)	(400,675)	(415,368)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,698,888	42,698,647	40,641,079	42,701,535
Net income / (loss)	27,608	28,458	(3,701)	2,590
Dividend declared during period to preference shareholders	-	(156)	-	(104)
Adjusted (loss) / net income	27,608	28,302	(3,701)	2,486
<b>Earnings / (loss) per share – basic and diluted (in Russian Roubles)</b>				
• Ordinary	0.65	0.66	(0.09)	0.06
• Preference	0.65	0.66	-	0.06

#### Note 25: Commitments

**Sales commitments.** The Group entered into two export contracts with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo, and one contract with Pohjolan Voima Oy. One contract with Fortum is for the supply of a minimum of 1.6 million MWh of electricity per year, at prices between Euro 11.90 and Euro 13.40 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 16.00 and Euro 16.70 per MWh. This contract expires at the end of 2004.

**Fuel commitments.** Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements for 1 October 2001 onwards in excess of amounts contracted will be purchased through short term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

**Social commitments.** Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

**Capital commitments.** Future capital expenditures for which contracts have been signed amount to RR 31,105 million at 30 September 2001, and RR 26,006 million at 31 December 2000.



## RAO UES Group

### Notes to the Consolidated Interim Financial Statements as at 30 September 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 30 September 2001, except as disclosed)

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#### Note 26: Contingencies

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

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

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

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

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

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

#### Note 27: Financial instruments and financial risk factors

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

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

**Foreign exchange risk.** The Group primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Group's purchases are denominated in Russian Roubles. The major concentration of foreign exchange risk is in relation foreign currency denominated sales and purchase commitments, as disclosed in Note 25, and US Dollar denominated debt and Russian Rouble denominated debt linked to US Dollar currency movements, as disclosed in Note 17.

**Interest rate risk.** As discussed in Note 17 the majority of interest rates on debt are variable. Interest rates on Russian Rouble denominated debt are reset when the underlying Central Bank re-financing rate changes. The interest rate on the Eurobond of US \$200 million is fixed at 8.4 percent; the interest rates on bonds issued by RAO UES and on bonds issued by subsidiaries are 5 percent and 8 percent, respectively. Assets are generally non-interest bearing.

## **RAO UES Group**

### **Notes to the Consolidated Interim Financial Statements as at 30 September 2001**

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#### **Note 28: Subsequent events**

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

**Other.** Subsequent to the period end, the Group entered into a series of transactions which improved its financial position. By agreement, the Ministry of Finance of the Russian Federation ("MinFin") transferred to the Group its obligations regarding certain specific Russian Federation debt ("RF debt"). In exchange, the MinFin agreed to reimburse the Group for settling the RF debt. Concurrently, as part of its arrangement with MinFin, the Group made payments of RR 40.7 billion to several of its major suppliers as settlement of a portion of its outstanding trade payables to them. In turn, the Group understands that these suppliers made equivalent payments to settle their outstanding tax liabilities. The Group received RR 40.7 billion from MinFin upon receipt of both the tax liability payments from the suppliers and a confirmation that the RF debt had been settled. In addition, as part of these transactions, the Group took out a loan of RR 24.0 billion from Sberbank at 20% interest per annum, repayable in quarterly instalments through 2004. The net impact to the Group, including the gain, associated transaction costs, and taxes, has not been estimated by the Group.