RAO UES

PARENT COMPANY STAND-ALONE IAS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

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

1. We have audited the accompanying balance sheet of RAO UES (that is, RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") as at 31 December 2001 and the related statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements, set out at pages 1 through 33, are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company (as a parent company on a stand-alone basis) as at 31 December 2001 and the results of its operations and cash flows for the year then ended, in accordance with International Accounting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
26 June 2002

RAO UES ("Parent company" stand-alone)
Balance Sheet as at 31 December 2001
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

	Notes	31 December 2001	31 December 2000
Assets			
Non-current assets			
Property, plant and equipment	7	136,390	133,186
Investments in subsidiaries and associates	8	46,724	44,157
Loans issued	9	11,761	-
Other non-current assets	10	12,321	17,813
Total non-current assets		**207,196**	**195,156**
Current assets			
Cash and cash equivalents	11	3,791	1,811
Accounts receivable and prepayments	12	39,220	17,178
Inventories		852	812
Loans issued	9	20,635	-
Other current assets		1,186	599
Total current assets		**65,684**	**20,400**
Total assets		**272,880**	**215,556**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	13		
Ordinary shares (nominal value RR 20,521 million)		128,074	128,074
Preference shares (nominal value RR 1,038 million)		6,660	6,660
Treasury shares		(487)	(487)
		134,247	134,247
Retained earnings and other reserves	13	48,650	28,404
Total shareholders' equity		**182,897**	**162,651**
Non-current liabilities			
Deferred profits tax liabilities	14	18,756	23,625
Non-current debt	15	15,412	3,430
Other non-current liabilities	21	2,824	-
Total non-current liabilities		**36,992**	**27,055**
Current liabilities			
Current debt and current portion of non-current debt	16	12,124	1,217
Accounts payable and accrued charges	17	32,194	9,053
Taxes payable	18	7,338	14,185
Deferred income		1,335	1,395
Total current liabilities		**52,991**	**25,850**
Total shareholders' equity and liabilities		**272,880**	**215,556**

Chairman of the Management Board — Chubais A.B.

Head of the Department for Accounting and Reporting — Makshakov S.V.

26 June 2002

RAO UES ("Parent company" stand-alone)
Statement of Operations for the year ended 31 December 2001
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
Revenues			
Transmission / subscription fees	4	29,051	20,028
Exported electricity		6,988	5,146
Heat and electricity		1,055	873
Rental income		541	556
Investment income		1,280	627
Other income		3,869	1,097
Total revenues		**42,784**	**28,327**
Operating costs	19		
High voltage network operating costs		7,562	7,654
Repairs and maintenance		3,674	3,801
Purchased electricity		3,526	2,132
Administrative and general		3,243	2,725
Taxes other than on income		1,403	1,601
Loss on the disposal of fixed assets and investments		1,381	494
Heat and electricity generation costs		934	801
Rental costs		501	726
Doubtful debtors (release) / expense		(463)	409
Other expenses		1,497	1,337
Total costs and other deductions		**23,258**	**21,680**
Income from operations		**19,526**	**6,647**
Gain arising from Czech transactions	1	7,266	-
Monetary effects and financing items	22	(1,483)	(4,559)
Income before taxation		**25,309**	**2,088**
Current profits tax charge		(8,127)	(5,090)
Deferred profits tax release / (charge)		4,612	(1,533)
Total tax charge	14	(3,515)	(6,623)
Net income / (loss)		**21,794**	**(4,535)**
Earnings / (loss) per share – basic and diluted (in Russian roubles)	20	0.51	(0.11)

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Head of the Department for Accounting and Reporting — Makshakov S.V.

26 June 2002

RAO UES **("Parent company" stand-alone)**

Statement of Cash Flows for the year ended 31 December 2001

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before taxation		**25,309**	**2,088**
Adjustments to reconcile net loss before taxation to net cash provided by operations:			
Depreciation and amortisation		7,759	7,854
Impairment of other non-current assets		1,142	-
Loss on disposal of fixed assets and investments		1,381	494
Foreign exchange loss		254	214
Discount on low interest loans on Czech transactions		9,197	-
Interest expense		483	535
Tax interest and gain on restructuring taxes payable		(1,899)	1,971
Doubtful debtors expense		(463)	409
Dividends receivable and received		(1,280)	(627)
Monetary effects on non-operating balances		(404)	17
Adjustment for non-cash investing activities		(1,041)	(6,726)
Other		545	452
Operating profit before working capital changes and profits tax paid		**40,983**	**6,681**
Working capital changes:			
(Increase) / decrease in accounts receivables and prepayments, gross		(22,758)	9,248
Increase in current portion of loans issued		(23,150)	-
Increase in non-current portion of loans issued		(18,443)	-
Decrease / (increase) in other current assets		159	(27)
Increase in inventories		(40)	(222)
Increase / (decrease) in accounts payable and accrued charges		23,478	(111)
Decrease in taxes payable other than profits tax		(1,558)	(901)
(Decrease) / increase in deferred income		(58)	1,393
Profits tax paid / non-cash		(135)	(92)
Profits tax paid / cash		(8,425)	(3,297)
Net cash (used for) / provided by operating activities		**(9,947)**	**12,672**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(5,810)	(2,331)
Additions to other non-current assets		(6,640)	(4,570)
Purchase of investments		(111)	(888)
Dividends received		1,169	501
Net cash used for investing activities		**(11,392)**	**(7,288)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		20,332	11,710
Reductions of loan		(12,122)	(17,817)
Proceeds from issuance of non-current debt		14,388	2,594
Effect of inflation on financing activities		2,483	1,142
Interest paid		(573)	(333)
Dividends paid		(689)	(901)
Net cash provided by / (used for) financing activities		**23,819**	**(3,605)**
Effect of inflation on cash and cash equivalents		(500)	(202)
Net increase in cash and cash equivalents		**1,980**	**1,577**
Cash and cash equivalents at the beginning of the year		**1,811**	**234**
Cash and cash equivalents at the end of the year	11	**3,791**	**1,811**

Chairman of the Management Board — Chubais A.B.

Head of the Department for Accounting and Reporting — Makshakov S.V.

26 June 2002

RAO UES **("Parent company" stand-alone)**
Statement of Changes in Shareholders' Equity for the year ended 31 December 2001
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 31 December 1999	128,074	6,660	(487)	33,744	167,991
Net loss	-	-	-	(4,535)	(4,535)
Dividends	-	-	-	(805)	(805)
At 31 December 2000	128,074	6,660	(487)	28,404	162,651
At 31 December 2000, as previously reported	128,074	6,660	(487)	28,404	162,651
Adoption of IAS 39 (see Note 3)	-	-	-	(682)	(682)
At 31 December 2000, as adjusted	128,074	6,660	(487)	27,722	161,969
Net profit	-	-	-	21,794	21,794
Dividends	-	-	-	(1,026)	(1,026)
Change in fair value of available-for-sale investments	-	-	-	160	160
At 31 December 2001	128,074	6,660	(487)	48,650	182,897

Chairman of the Management Board Chubais A.B.

Head of the Department for Accounting and Reporting Makshakov S.V.

26 June 2002

Note 1: The Company and its operations

The Russian Joint Stock Company for Energy and Electrification (RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") 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 Company's principal assets are made up as follows:

> ***High voltage network:*** The high voltage network connects all but a few regions of the Russian Federation. The Company maintains this network and charges a transmission/subscription fee to users of the network.
>
> ***Generating stations:*** Nine generating stations are owned directly by the Company, of these six stations are leased to its investees, the remaining three stations operate as electricity producers and sell electricity direct to the wholesale electricity market. In addition, the Company has ownership interests in a significant number of large stand-alone hydro and thermal generating companies;
>
> ***Regional generation and distribution companies:*** The Company has ownership interests in more than 70 regional generation and distribution companies ("Energos"). These ownership interests range from 14.2% to 100%;
>
> ***Other:*** In addition, RAO UES has ownership interests in a number of other utility-related enterprises and construction companies.

As part of the sector restructuring process described in Note 2, it is planned that some of the Company's assets, in particular the high voltage transmission network will be transferred to other legal entities during the year 2002.

The Company is required to provide access to the high voltage network, maintain it and develop the unified electricity system of the Russian Federation. The Central Dispatch Centre ("CDC"), a 100% owned subsidiary of the Company, is sub-contracted by the Company to undertake the technical management and balancing of the high voltage network as well as operate the Federal Wholesale Market of Electricity and Capacity ("FOREM"). The Company is also responsible for coordinating and ensuring sufficient generation capacity in the sector. The construction of generation and distribution assets is undertaken primarily through joint construction projects between the Company and the Energos. The Company has significant control over export activities and generally acts as principal, buying electricity from FOREM and selling it abroad. The Company receives a subscription fee from the Energos to cover its costs of transmission, investment into the sector and other operations.

At 31 December 2001 and at 31 December 2000, the number of employees of the Company was approximately 16,800.

The Company's registered office is located at 7, Kitaigorodsky Proezd, 103074, Moscow, Russia

Relations with the State and current regulation. At 31 December 2001, the Russian Federation owned 52.7% of RAO UES, which represents 54.9% of the ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The energos' customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Company's and energos fuel and other suppliers.

The Government of the Russian Federation directly affects the Company's operations through regulation by the Federal Energy Commission ("FEC") in respect of the transmission/subscription fee it may charge. Tariffs which the Company and its energos may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on the energos to provide connection for the supply of electricity and heating to customers in the Russian Federation.

Note 1: The Company and its operations (continued)

As described in Note 2 and 24, the government's economic, social and other policies could have material effects on the operations of the Company.

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 Company, are largely dependent upon the effectiveness of economic measures undertaken by the government together with legal, regulatory, and political developments.

Transactions related to the repayment of Russian Federation debt to the Czech Republic. During December 2001 the Company entered into a series of transactions in which it participated in the settlement of Russian Federation debt ("RF debt") to the Czech Republic (the "Czech transactions"). By agreement, the Ministry of Finance of the Russian Federation ("MinFin") transferred to the Company its obligations regarding RF debt in exchange for a commitment to repay such debt. The Company issued promissory notes with a par value of RR 40,743 million to the Czech Republic's agent, Falcon Capital, to buy back the RF debt. MinFin paid RR 40,713 million to the Company upon confirmation that the RF debt had been settled and that the tax liability payments from suppliers described below had been received.

The Company settled the promissory notes issued to Falcon Capital for RR 24,250 million, through an advance payment of RR 24,210 million made prior to the year end, and a final payment of RR 40 million made in February 2002. These transactions were made through the Non-commercial Partnership "Centre for Assisting in Restructuring Electricity Sector" (CARES) jointly owned by two 100% subsidiaries of the Company. The Company obtained a loan of RR 24,000 million from Sberbank (see Note 15) to make this prepayment.

Concurrently, as part of its arrangement with MinFin, the Company issued loans to several of its major suppliers and to its subsidiaries, for RR 14,705 million and RR 26,044 million, respectively. The loans to suppliers were required to be made for one year, carry no interest, and are repayable in equal, monthly instalments through the end of 2002. As a result of the loans being issued at below market interest rates, the Company has recorded a discount of RR 1,380 million.

The loans to the subsidiaries were issued by CARES and transferred to the Company. These loans were used by the subsidiaries to make payments to major suppliers as a settlement of a portion of the outstanding trade payables to these suppliers. The Company understands that these suppliers made equivalent payments to settle their outstanding tax liabilities. As these loans were provided at below market interest rates, the Company has recorded a discount of RR 7,817 million.

The resulting net gain on the Czech transactions of RR 7,266 million is comprised of the proceeds received from MinFin less the amount paid to Falcon Capital and the discount on the loans issued to the supplies and to the subsidiaries. In addition, a tax liability of RR 1,744 million arose, which is reflected in deferred taxes.

Note 1: The Company and its operations (continued)

Regulatory and sector restructuring. The power sector and the Company are presently undergoing restructuring designed to introduce competition into the electricity sector and to create an environment in which the Company and its successor companies can raise required capital to maintain and expand current capacity. Under Government Resolution No. 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulatory market will be set up for, initially, sales of 5-15% of the electricity generated. After 2004 all electricity generated will be sold in a competitive, wholesale market. In accordance with the "Action Plan for the 1st Stage of the Electric Utilities Reform," approved by Government Directive No. 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 created to manage the new wholesale market. The Company controls 50% of the votes in the Supervisory Council of the TSA; the other 50% is owned by other industry participants;

- Federal Grid Company ("FSK") – FSK was established in June 2002, as a wholly-owned subsidiary, to manage the transmission assets and operations, currently in the Company. These assets have not yet been transferred to FSK;

- System Operator – "OAO System Operator – Central Dispatch Unit of Unified Energy System" was established in June 2002, to control the dispatch of electricity;

- The Company has drafted guidelines that set out the process for establishing wholesale generation companies, including a listing of the power stations included therein. At present, ministries and government agencies of the Russian Federation are considering these guidelines. Further, consultations are being held with heads and representatives of the regions whose power stations are earmarked for integration within the wholesale generation companies. It is planned that during the summer of 2002, the Government will approve the guidelines as well as the list of included entities and the structure of the wholesale generation companies; and

- The subsidiaries and associates of the Company have already taken steps to prepare for the reform of the regional generation and distribution companies. For the purpose of considering and approving these reform projects, a Project Committee for Reform under the Board of Directors of the Company has been established and has begun reviewing submitted reform projects.

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

Note 2: Financial condition

At 31 December 2001, the Company's current assets exceeded its current liabilities by Russian Roubles ("RR") 12,693 million. At 31 December 2000 the Company had net current liabilities of RR 5,450 million. During the period, the Company improved its financial position, largely through better cash collections and the restructuring of tax liabilities to long term. The effects of restructuring of taxes payable are described in Notes 21 and 22.

Note 2: Financial condition (continued)

The Company is affected by government policy through control of tariffs and other factors that directly impact its own operations and those of its principal investees, the Energos. In recent years the Regional and Federation Energy Commissions, that control the tariffs of the Energos, FOREM tariffs and subscription fees, have not always permitted tariff increases in line with inflation and thus some tariffs are insufficient to cover all the costs of generation, distribution and transmission. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs under the IAS basis of accounting. As a result tariffs often do not allow for an adequate return or provide sufficient funds for the full replacement of property, plan and equipment. In addition, the Company and the Energos are experiencing difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

The Company and the Energos continue to experience problems in obtaining settlement of old accounts receivable from earlier periods. There is legislation enabling non-payers to be cut off, but this only possible to a certain extent due to strategic factors. Federal, municipal and other governmental organisations make up a significant proportion of the Energos' debtor balance as at 31 December 2001.

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

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

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

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

Note 3: Basis of presentation

The financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS"). They represent the results and financial position of RAO UES as a "parent company" on a stand-alone basis and, as such, subsidiaries and associates are presented as investments in the financial statements. Consolidated IAS financial statements for the RAO UES Group are produced separately for the year ended 31 December 2001 and include the relevant financial information regarding the results and financial position of RAO UES and its subsidiaries and associates on a consolidated basis.

The Company 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.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 3: Basis of presentation (continued)

The preparation of financial statements in conformity with IAS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to the impairment provisions, the diminution in carrying value of investments, and the discounting to fair value of trade receivables. Actual results could differ from these estimates.

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 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 index used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 31 December 2001 under respective conversion factors are:

Year	Indices	Conversion Factor
1997	659,403	3.6
1998	1,216,400	1.9
1999	1,661,481	1.4
2000	1,995,937	1.2
2001	2,371,572	1.0

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

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31 December 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 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 31 December 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 Company's net monetary position is included in the statement of operations as a net monetary loss.

The statement of operations includes a net monetary loss of RR 1,503 million for the year ended 31 December 2001 (2000: RR 1,839 million) because, on average the Company had net monetary assets during the year. Since 31 December 2001, inflation has continued. As of 30 April 2002 the CPI was 2,531,670 (1988=100), representing inflation of 6.75 percent since 31 December 2001.

Adoption of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). With effect from 1 January 2001, the Company has adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised below; the related accounting policies adopted are disclosed in Note 4.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 3: Basis of presentation (continued)

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

	Total effect to items measured Increase / (decrease)	**Deferred profits tax liabilities** (Increase) / decrease	**Retained earnings and other reserves** Increase / (decrease)
Available-for-sale investments	133	-	133
Accounts receivable	(1,072)	257	(815)
	(939)	257	(682)

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 receivable amounts are stated at amortized cost, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Note 4: Summary of significant accounting policies

Investments in subsidiaries and associates. Investments in subsidiaries, associates and joint activities are carried at historical cost restated to the equivalent purchasing power of the Russian rouble at 31 December 2001. Provision is made where, in the opinion of management, there has been impairment, such that the recoverable value has fallen below the carrying amount.

Available for sale investments. At 1 January 2001 the Company 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, or 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 within other non-current 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 of the investees. In assessing the fair value management makes assumptions that are based on market conditions existing at each balance sheet date.

Loans issued. Loans issued by the Company by providing money are measured at amortised cost. Amortised cost is the amount at which the loan was measured at initial recognition minus principal repayments plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment or uncollectability.

Foreign currency. Monetary assets and liabilities which are held by the Company 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.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 4: Summary of significant accounting policies (continued)

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") at 31 December 2001 was RR 30.14:US$ 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 31 December 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 Company carries out its activities is the property of the state and, therefore, is not included in the balance sheet.

Property, plant and equipment are depreciated on a straight-line basis over its remaining useful life. The average remaining useful life as at 31 December 2001, weighted by the closing net book value of these assets, is shown in the table below.

Type of facility	Years
Electricity transmission	15
Electricity generation	14
Other	8

Depreciation on additions in the year 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:

Note 4: Summary of significant accounting policies (continued)

Type of facility	Years
Electricity transmission	40
Electricity generation	50
Other	15

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

Leased assets. The Company leases assets to other Energos. Under the lease agreements all the risks and benefits of ownership are effectively retained by the Company, and so the leases are classified as operating leases. These assets are included in property, plant and equipment. Depreciation is calculated in accordance with the principles applicable to the respective assets. Revenue from leasing activities is recognised evenly, over the lease term as revenue in the statement of operations.

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. Cash equivalents are not subject to the risk of significant changes in value and have an original 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 Company relies to an 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 transactions from operations. However, individual items within this part of the cash flow statement 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 Company 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 at 20 percent is applied to the majority of purchases and sales, with exception to export amounts received from countries outside of the CIS. 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.

Note 4: Summary of significant accounting policies (continued)

During the year ended 31 December 2000, elements of the fee charged for transmission services were not subject to value added tax. As a consequence the effective value added tax rate was 12 percent.

Inventories. Inventories are valued at the lower of net realisable value or weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2001. 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.

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.

If accounts payable are restructured and the fair value of the restructured payable differs by more then ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Company 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 Company 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.

Pension and post-employment benefits. The Company's 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 estimate exists.

Revenue Recognition. Revenue is recognised on the accrual basis. Billings for transmission fees are based upon tariffs authorised and approved by the Federal Energy Commission on an annual basis. Those components of revenue, which are bound by legal obligations, are recognised as these obligations are fulfilled. Any difference between amounts accrued and obligations fulfilled is shown in the balance sheet as deferred income. Revenue figures are presented exclusive of value added taxes.

In prior periods, transmission fee revenue was based upon management's estimate of the fair value of such revenue, given the expected timing of future receipt of payments. The difference between the nominal amount and the fair value was recognised as imputed interest income on a time proportion basis up to the date of settlement. Management considers that this accounting treatment is no longer applicable, because current revenue is being settled on a timely basis.

Note 4: Summary of significant accounting policies (continued)

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 year, excluding the average number of treasury shares held by the Company. Preference shares participate in losses.

Treasury shares. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2001. Any gains or losses arising on the disposal of treasury shares are recorded direct to the statement of changes in shareholders' equity.

Note 5: Segmental information

Primary reporting segments – business segments. The Company is organised into four main business segments:

- ***"Transmission and system management operations"*** – this segment owns, constructs, maintains and operates the high voltage electricity transmission network. As stated in Note 1 the Company receives a subscription fee from all regional Energos to cover the costs of transmission, construction of major projects in the sector and other operations (eg. parent's Company's activities in the RAO UES Group and the power sector generally).

- ***"Long-term investments"*** – this segment comprises the Company's long-term investments including its investment in the generation and distribution companies that comprise the RAO UES Group. These subsidiary and associated investees are described in Note 6.

- ***"Purchase and sale of electricity"*** – the Company during 1999 commenced a new activity involving the purchase and subsequent sale of electricity. Substantially all electricity is purchased from related parties (as discussed in Note 6). All electricity purchased is exported to countries including the CIS.

- ***"Generation and leasing"*** – the Company owns nine power stations and assets of coal mine. Six of these power stations and assets of coal mine are leased under operating leases to investees and the remaining three power stations are operated as electricity producers and sell directly to FOREM. The Company also participates in joint ventures with Energos and other entities to construct new power stations.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 5: Segmental information (continued)

Year ended 31 December 2001	Transmission and system management operations	Long term investments	Purchase and sale of electricity	Generation and leasing	Total
Revenues	29,051	1,280	9,790	2,663	42,784
Segment result	17,179	249	6,570	(1,229)	22,769
Administrative and general costs					(3,243)
Gain arising on Czech transactions					7,266
Monetary effects and financing items					(1,483)
Income before taxation					25,309
Income tax charge					(3,515)
Net income					21,794
Capital expenditure	4,921	-	-	2,443	7,364
Depreciation and amortisation	6,440	-	-	1,319	7,759
Impairment of non-current assets	-	1,142	-	-	1,142
Doubtful debtors (release) / expense	(483)	-	(396)	416	(463)
As at 31 December 2001					
Segment assets	130,300	55,526	1,083	26,845	213,754
Unallocated assets					59,126
Total assets					272,880
Segment liabilities	6,175	2,522	987	3,108	12,792
Unallocated liabilities					77,191
Total liabilities					89,983

The categories of unallocated assets and unallocated liabilities include the assets and liabilities originated as a result of Czech transactions (see Note 1) in total amount of RR 56,606 million and RR 48,250 million, respectively.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 5: Segmental information (continued)

Year ended 31 December 2000	**Transmission and system management operations**	**Long term investments**	**Purchase and sale of electricity**	**Generation and leasing**	**Total**
Revenues	20,028	627	5,146	2,526	28,327
Segment result	6,951	101	2,863	(543)	9,372
Administrative and general costs					(2,725)
Monetary effects and financing items					(4,559)
Income before taxation					2,088
Income tax charge					(6,623)
Net loss					(4,535)
Capital expenditure	2,136	-	-	1,740	3,876
Depreciation and amortisation	6,463	-	-	1,391	7,854
Doubtful debtors expense	409	-	-	-	409
As at 31 December 2000					
Segment assets	132,253	55,228	1,037	24,518	213,036
Unallocated assets					2,520
Total assets					215,556
Segment liabilities	10,018	2,544	1,385	4,059	18,006
Unallocated liabilities					34,899
Total liabilities					52,905

Secondary reporting segments - geographical segments. The Company operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. As noted above, the Company owns, operates and maintains the high voltage transmission network. The transmission network is located nearly throughout the territory of the Russian Federation but is recorded in the books of the Company without details of geographic location. As a consequence it is not practicable to split the transmission network assets of the Company on a geographical basis. The transmission network assets have, therefore, been included as part of the Company geographical segment.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 5: Segmental information (continued)

In each of the seven regions RAO UES has representation offices that co-ordinate activities on behalf of the Company.

	Revenues		Total assets		Capital expenditure	
	2001	2000	2001	2000	2001	2000
RAO UES	10,962	6,894	193,531	154,651	1,261	1,145
Siberia	8,407	4,223	14,422	13,405	1,576	539
Urals	5,794	5,026	14,631	10,252	1,087	892
Centre	8,879	6,404	15,597	8,437	597	284
North-West	3,222	2,189	6,895	5,611	1,398	450
East	904	663	13,342	12,869	511	90
Mid-Volga	2,678	1,642	4,026	1,568	667	187
South	1,938	1,286	10,436	8,763	267	289
Total	42,784	28,327	272,880	215,556	7,364	3,876

Note 6: Related parties

The Company controls or has significant influence over Energos and stand-alone power stations throughout the Russian Federation. These subsidiary and associated investees of the Company are its principal related parties and are listed in the tables below.

PRINCIPAL SUBSIDIARY INVESTEES

Regional generation and distribution companies

Centre

Astrakhanenergo
Belgorodenergo
Ivenergo
Kalugaenergo
Kostromaenergo
Kurskenergo
Lipetskenergo
Mosenergo
Nizhnovenergo
Orelenergo
Ryazanenergo
Smolenskenergo
Tambovenergo
Tulaenergo
Tverenergo
Vladimirenergo
Volgogradenergo
Vologdaenergo
Voronezhenergo
Yarenergo

South

Dagenergo
Experimentalnaya TES
Kabbalkenergo
Kalmenergo
Karachaevo-Cherkesskenergo
Kubanenergo
Rostovenergo
Sevkavkazenergo
Stavropolenergo

Ural

Chelyabenergo
Kirovenergo
Kurganenergo
Orenburgenergo
Permenergo
Sverdlovenergo
Tumenenergo
Udmurtenergo

Middle Volga

Chuvashenergo
Marienergo
Mordovenergo
Penzaenergo
Samaraenergo
Saratovenergo
Ulyanovskenergo

East

Amurenergo
Dalenergo
Geoterm
Khabarovskenergo
Kolymaenergo
Kamchatskenergo
Magadanenergo
Sakhalinenergo
Sakhaenergo
Yakutskenergo

Note 6: Related parties (continued)

North-West

Arkhenergo
Bryanskenergo
Karelenergo
Kolenergo
Komienergo
Lenenergo
Novgorodenergo
Pskovenergo
Yantarenergo

Siberia

Altaienergo
Buryatenergo
Chitaenergo
Khakasenergo
Krasnoyarskenergo
Kuzbassenergo
Omskenergo
Tomskenergo

Hydrogenerating companies

Bureyskaya GES
Kabbalk GES
Kamskaya GES
Kaskad Verhnevolzhskih GES
Taimyrenergo
Sayano-Shushenskaya GES
Sulakenergo
Volzhskaya GES (Volzhsk)
Volzhskaya GES (Zhigulevsk)
Votkinskaya GES
Zaramagskie GES
Zeiskaya GES
Zelenchugskie GES

Thermal generating companies

Berezovskaya GRES 1
Cherepetskaya GRES
Gusinoozerskaya GRES
Kaliningradskaya TETS –2
Konakovskaya GRES
Kostromskaya GRES
Krasnoyarskaya GRES –2
Kuban GRES
Lutek
Nevinomysskaya GRES
North-West Station
Novocherkasskaya GRES
Pechorskaya GRES
Permskaya GRES
Pskovskaya GRES
Ryazanskaya GRES
Schekinskiye PGU
Stavropolskaya GRES
Troitskaya GRES

Construction companies

Boguchangesstroi
Bureyagesstroy
Cherkeigesstroi
Zeyagesstroi

Other

Central Dispatch Centre
Centre of Settlement Optimization
Neftianoy Dom
Centre for Assistance in Restructuring Electricity Sector (CARES)

ASSOCIATE INVESTEES

Bashkirenergo
Novosibirskenergo

***Significant balances with subsidiary and associated related parties*.** Subsidiaries and associates, as listed above, are carried as long-term investments at cost as disclosed in Note 8. Amounts due from these related parties are included as trade receivables in Note 12 amounting RR 6,533 million (2000: RR 10,480 million). Certain subsidiaries provided construction services to the Company RR 264 million (2000: RR 323 million) during the year. Outstanding construction liabilities with these related parties amounted as at 31 December 2001 to RR 229 million (2000: RR 787 million). Outstanding payables in respect of purchased electricity amount to RR 395 million as at 31 December 2001 (2000: RR 852 million).

Note 6: Related parties (continued)

Significant transactions with subsidiary and associated related parties. As shown in the Statement of Operations for the year ended 31 December 2001, substantially all revenue, with the exception of exported electricity, is received from the above subsidiary and associate related parties, as they are the main customer in respect of transmission fees. Substantially all exported electricity is purchased from subsidiary and related parties. For the year ended 31 December 2001 RR 2,279 million (2000: RR 1,797 million) of electricity was purchased from subsidiary and associated related parties at prices set for FOREM by FEC. In addition,
RR 257 million (2000: RR 403 million) and RR 126 million (2000: RR 316 million) included within high voltage network operating costs and repairs and maintenance, respectively, arose through transactions with these related parties, on normal commercial terms.

ZAO "Inter-RAO" is a subsidiary of the Company. The Company's holding in Inter-RAO is included in "Other investments" and is not material. During 2001 and 2000 Inter-RAO was involved in mutual settlements of the Company's export electricity receivables from CIS. The commission charged for this service is equal RR 46 million for 2001 (2000: RR 30 million). Commission was transacted on arm's length bases. The balance outstanding due to the Company from Inter-RAO included in other receivables was RR Nil million as at 31 December 2001 (2000: 671 million). As at 31 December 2001 the Company had outstanding liabilities to Inter-RAO of RR 11 million included in other creditors (2000: RR 30 million).

Shares of RAO UES held by subsidiaries. As at 31 December 2001 48,025,990 (2000: 48,584,893) ordinary and 16,652,444 (2000: 16,605,418) preference shares of the Company are held by subsidiaries.

Other related parties. Eurofinance is a financial organisation which provides services to the Company. 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 61 million in the year ended 31 December 2001 (2000: RR 64 million). Commission and interest approximate market rates. As at 31 December 2001 RAO UES did not hold promissory notes of Eurofinance (31 December 2000: RR 993 million). The balance outstanding due to RAO UES from Eurofinance was RR 286 million as at 31 December 2001 (2000: RR 209 million).

Directors' compensation. Compensation paid to members of the Management Board for their services in full time management positions 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 Management 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 for their services in that capacity, or for attending board meetings.

Total salary and bonuses paid to members of the Management Board by the Company and its Energo investees, amounted to RR 60 million for the year ended 31 December 2001 (2000: RR 71 million).

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 7: Property, plant and equipment

	Electricity Generation	Electricity Transmission	Construction in Progress	Other	Total
Appraised value / Cost					
Balance as at 31 December 2000	39,160	179,656	41,172	8,622	268,610
Additions	303	26	6,774	261	7,364
Transfers	2,562	2,029	(5,578)	987	-
Disposals	(1,002)	(1,955)	(693)	(746)	(4,396)
Net transfers from / (to) other non-current assets	3,682	-	430	903	5,015
Transfers to investments	(172)	(19)	(119)	(31)	(341)
Balance as at 31 December 2001	44,533	179,737	41,986	9,996	276,252
Accumulated depreciation					
Balance as at 31 December 2000	(30,111)	(83,894)	(15,664)	(5,755)	(135,424)
Charge for the year 2001	(774)	(6,440)	-	(545)	(7,759)
Transfers	(698)	(738)	1,786	(350)	-
Transfers to investments	5	1	-	2	8
Disposals	619	1,973	300	421	3,313
Balance as at 31 December 2001	(30,959)	(89,098)	(13,578)	(6,227)	(139,862)
Net book value as at 31 December 2000	**9,049**	**95,762**	**25,508**	**2,867**	**133,186**
Net book value as at 31 December 2001	**13,574**	**90,639**	**28,408**	**3,769**	**136,390**

The Company leases six power stations to its Energo investees and also assets of a coal mine under operating leases. The carrying value of leased assets is shown below.

	31 December 2001	31 December 2000
Appraised value / Cost	33,115	33,211
Accumulated depreciation	(29,714)	(29,570)
Net book value	3,401	3,641

Future rental income due under the operating leases for the year 2002 (calculated based on monthly charge rate per contracts) equals RR 794 million (for the year 2001: RR 501 million), which has not been adjusted for the effects of inflation. This income may change as a result of future agreements between the Company and its customers, due to the fact that contracts may be updated or cancelled subject to mutual agreement of the parties.

Construction in progress represents the carrying value of property, plant and equipment that has not yet been put into production, primarily representing generating stations and high voltage network under construction. When construction projects are completed the cost, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 7: Property, plant and equipment (continued)

Depreciation is recorded beginning when an asset is available for service.

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

Additions to operational fixed assets principally comprise the transfer of completed projects from construction in progress. Additions to construction in progress principally comprise work completed. Approximately 15% (2000: 51%) of the additions to construction in progress have been settled through mutual settlement, barter and other non-cash means, 85% (2000: 49%) settled through cash means.

During 2001 RR 333 million of property, plant and equipment were exchanged for shares of the Company's subsidiary and are shown as a transfer to investments in the fixed asset movement table above (2000: RR 1,317 million).

Impairment. For the year ended 31 December 2001, management has assessed the adequacy of its existing impairment provision and concluded that the amount is still appropriate. Accordingly, no further adjustment has been recorded. The impairment provision included within the accumulated depreciation balance as at 31 December 2001 is RR 100,272 million.

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

Note 8: Investments in subsidiaries and associates

Carrying value as at 1 January 2000	**31,599**
Additions	1,776
Transfer from property, plant and equipment	1,317
Transfers from other non-current assets	9,212
Transfers	253
Carrying value as at 31 December 2000	**44,157**
Additions	95
Transfer from property, plant and equipment	333
Transfers from other non-current assets	2,535
Disposals	(396)
Carrying value as at 31 December 2001	**46,724**

The subsidiary and associate investments were transferred to the Company by the Russian Federation on and after its incorporation into a joint stock company. The Company is restricted, by law, in its ability to sell its subsidiary and associated investments and requires the approval of the Government of the Russian Federation for any disposal.

Additions to subsidiary and associated investments of RR 62 million and RR 33 million were financed through cash and non-cash transactions respectively (2000: RR 889 million and RR 887 million respectively).

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 8: Investments in subsidiaries and associates (continued)

The transfer from property, plant and equipment represents the receipt of shares in a subsidiary in exchange for some of its property, plant and equipment balances, as described in Note 7.

The transfer from other non-current assets of RR 2,535 million (2000: RR 9,212 million) is from equity prepayments and joint investment activity, as described in Note 10.

The carrying value of investments was adjusted for impairment in prior years. For the year ended 31 December 2001, management has re-assessed the adequacy of its existing impairment provision and concluded that the amount is still appropriate.

Note 9: Loans issued

Short-term loans

	Currency	Effective interest rate	31 December 2001	31 December 2000
Loan issued to Gazprom	RR	18%	9,150	-
Loan issued to Rosenergoatom	RR	20%	4,175	-
Other loans	RR		844	-
Current portion of loans issued to AO-Energos			6,466	-
Total			**20,635**	**-**

Long-term loans

	Currency	Effective interest rate	Due	31 December 2001	31 December 2000
Loans issued to AO-Energos	RR	18-23%	2002-2007	18,227	-
Less: current portion of loans issued to AO-energos				(6,466)	-
Total				**11,761**	**-**

Maturity Table	31 December 2001	31 December 2000
Due for re-payment		
Between one and two years	5,866	-
Between two and five years	5,636	-
After five years	259	-
Total	**11,761**	**-**

Loans to AO-energos, loans to Gazprom and Rosenergoatom were issued as part of the Czech transactions (see Note 1).

The loans were issued at zero or below market interest rates; they are being amortized using the market rate of interest of the respective borrowers. The rates are between 18% to 23%, depending on borrower and the timing of relevant cash flows. The effects of discounting amounting to RR 1,380 million for external borrowers and RR 7,817 million for subsidiaries and associates are reflected within the net gain on Czech transactions.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 10: Other non-current assets

	31 December 2001	31 December 2000
Joint investment activity	1,865	3,838
Advances for equity in subsidiaries and associates	6,936	9,576
Available for sale investments	3,520	4,399
	12,321	**17,813**

Joint investment activity. The Company participates in construction projects with Energos or third parties, each party contributing cash and assets to the project. These projects represent the construction of generation and distribution fixed assets. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the project. At this time the balance is transferred to investments.

Advances for equity in subsidiaries and associates. The Company has agreements in place with some of the Energos under which the Company advances cash and non-cash contribution for future issues of equity in the Energo. The number of shares to be issued will be determined at a future point in time. These advances are utilised by the Energos to fund the construction of generation and distribution fixed assets. When the equity is issued, the balance is transferred to investments.

In 2001 the Company converted RR 2,535 million (2000: RR 9,212 million) of these advances and joint investment activity into equity, which has been included in investments (see Note 8). Further advances and contributions in joint investment activity in 2001 amounted to RR 6,289 million (2000: RR 5,919 million), being RR 6,207 million and RR 82 million, cash and non-cash respectively (2000: RR 1,576 million and RR 4,343 million, cash and non-cash respectively).

Note 11: Cash and cash equivalents

	31 December 2001	31 December 2000
Cash at bank and in hand	3,791	431
Cash equivalents	-	1,380
	3,791	**1,811**

Cash equivalents comprise bank promissory notes.

Note 12: Accounts receivable and prepayments

	31 December 2001	31 December 2000
Trade receivables (net of allowance for doubtful accounts of RR 2,674 million for 2001and RR 2,741million for 2000)	8,116	12,057
Other receivables (net of allowance for doubtful accounts of RR 1,303 million for 2001 and RR 2,574 million for 2000)	3,776	3,399
Advances	25,430	1,082
Prepayments and accrued income	596	145
Value added tax recoverable	1,302	495
	39,220	**17,178**

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 12: Accounts receivable and prepayments (continued)

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 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 Company believes that it will be able to realise the net receivable amount through direct collections and other non-cash settlements.

The doubtful debtors release includes imputed interest income of RR 1,237 million arising from the unwinding of the discount applied to accounts receivable in prior years and reflect the timing of the ultimate settlement.

For the year ended 31 December 2001, approximately 13 percent (year ended 31 December 2000: 45 percent) of the settlements of the Company's accounts receivables and prepayments were made via non-cash settlements.

Accounts receivable and prepayments are stated at fair value.

Advances as at December 31, 2001 include advance to CARES amounting to RR 24,210 million as part of the Czech transactions (see Note 1).

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	31 December 2001	31 December 2000
Ordinary shares	41,041,753,984	128,074	128,074
Preference shares	2,075,149,384	6,660	6,660
		134,734	**134,734**

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 balance sheet date.

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

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 13: Shareholders' equity (continued)

Dividends: The statutory accounts of the Company are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the current year net profit. For 2001, the statutory profit for the Company, as reported in the published annual statutory reporting forms, was RR 12,776 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 on these financial statements.

A dividend was declared in 2001 in respect of the year ended 31 December 2000 of RR 0.0240 per ordinary share (RR 0.0200 per ordinary share uninflated) (in 2000 in respect of 1999: RR 0.0187 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0877 per preference share (RR 0.0738 per preference share uninflated) (in 2000 in respect of 1999: RR 0.0524 per preference share, RR 0.0367 per preference share uninflated). Preference dividends outstanding were RR 33 million as at 31 December 2001 (31 December 2000: RR 19 million).

A dividend was recommended by the Board of Directors of RAO UES in 2002 in respect of the year ended 31 December 2001 of RR 0.0260 per ordinary share and RR 0.1185 per preference share.

Fair value reserve. The fair value reserve relating to the changes in the fair value of available-for-sale investments at 31 December 2001 was a debit of RR 133 million (31 December 2000: nil), and is included in retained earnings and fair value reserve.

Treasury shares. Treasury shares as at 31 December 2001 and as at 31 December 2000 represent 351,857,799 ordinary and 935,002 preference shares purchased and held by the Company, at cost.

	31 December 2001	31 December 2000
Ordinary shares	481	481
Preference shares	6	6
	487	487

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 14: Profits tax

The Company accrues income taxes at the rate of 35% on taxable profits computed in accordance with the Russian tax legislation. Net profit before taxation for financial reporting purposes is reconciled to tax expenses as follows:

	Year ended 31 December 2001	Year ended 31 December 2000
Income before taxation	25,309	2,088
Theoretical tax benefit / (charge) at a statutory rate of 35 percent thereon (2000: 30%)	(8,858)	(626)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income that is not assessable for profits tax purposes	2,498	1,108
Expenses non-deductible for profits tax purposes	(802)	(3,935)
Non-temporary elements of monetary gains / losses	(7,889)	(8,055)
Inflation effect on deferred tax balance at beginning of year	3,742	3,702
Effect of reduction / (increase) on tax rate	7,794	(3,374)
Temporary difference on statutory revaluation of tax base	-	4,557
Total tax charge	(3,515)	(6,623)

The non-temporary element of monetary gains and losses reflects the effect on the theoretical tax charge of inflation with respect to non-monetary items of a non-temporary nature (primarily deferred tax and equity).

Deferred profits tax. The difference 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 profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2000: 35%). The cumulative effect of such differences is as follows:

Deferred profits tax liability

	31 December 2001	Movement for the year	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Trade receivables	735	(353)	(337)	(257)	1,682
Property, plant and equipment	15,478	520	(7,094)	-	22,052
Accounts payable	3,958	3,958	-	-	-
Other	851	1,170	(390)	-	71
	21,022	5,295	(7,821)	(257)	23,805

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 14: Profits tax (continued)

Deferred profits tax asset

	31 December 2001	Movement for the year	Effect of change in tax rate	Effect of adoption of IAS 39	31 December 2000
Accounts payable	2,207	2,093	-	-	114
Other	59	20	(27)	-	66
	2,266	2,113	(27)	-	180
Net deferred profits tax liability	18,756	3,182	(7,794)	(257)	23,625

Temporary differences of RR 31,725 million (2000: RR 25,129 million) are associated with long term investments. However, the Company is able to control any disposal and it is probable that the temporary difference will not reverse in the foreseeable future. Consequently, in accordance with IAS 12 (revised 1996), the deferred profits tax liability has not been recognised.

On 6 August 2001 legislation was enacted which reduced the profits tax rate to 24%, effective from 1 January 2002.

Note 15: Non-current debt

	Currency	Effective interest rate	Due	31 December 2001	31 December 2000
Bonds	RR*	7%	2002-2003	3,214	3,565
Less: unreleased portion of discount	RR			(57)	(135)
				3,157	3,430
Sberbank	RR	20%	2002-2004	24,000	-
Federal Center of Project Financing	US$	7%	2002	66	51
				27,223	3,481
Less: current portion of non-current debt				(11,811)	(51)
Total				**15,412**	**3,430**

* See below description of linkage to US$ exchange rate

Maturity Table

	31 December 2001	31 December 2000
Due for re-payment		
Between one and two years	12,805	1,168
Between two and five years	2,664	2,397
	15,469	**3,565**

In December 1999 and February 2000 the Company issued 982,587 and 2,017,413 bonds respectively at 5.0 percent with a nominal value of 1,000 Russian roubles. These bonds were issued at a discount of 5.75 percent, equal to RR 172 million. This discount is recorded as a deduction from bonds borrowings amount and is to be released to interest expense in the statement of operations evenly over the life of the bond.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 15: Non-current debt (continued)

Interest is payable on the 365th, 731st and 1096th day from the bond placement commencement date. These bonds mature 3 years from their issue date, at nominal value. 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, December 1999 and February 2000.

The Company made a prepayment of RR 2,520 million for the repurchase of the bonds in two instalments in December 1999 and February 2000 amounting to RR 695 million and RR 1,825 million, respectively. The bonds are to be redeemed when they mature in December 2002 and February 2003, respectively.

All the above debt is unsecured and the majority of it is obtained at a fixed interest rate.

In December 2001 the Company received a RR 24,000 million loan from Sberbank. The loan is payable in equal monthly instalments of RR 2,667 million through 2004. The loan interest is fixed at 20% until April 1, 2002; thereafter, the annual interest rate varies and is 20% if RAO UES maintains a balance greater than RR 800 million with Sberbank, and 22.5% if the RAO UES's balance is below RR 800 million.

The Company issued promissory notes with par value of RR 38,432 as a pledge for the Sberbank loan principal and interest. These notes will become payable in the event the Company fails to meet the terms of the loan agreement. The notes are to be returned to the Company when the actual payments are made.

Note 16: Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2001	31 December 2000
Sberbank	RR	15%-20%	297	1,142
Other debts	RR	7%-16%	16	24
Current portion of non-current debt			11,811	51
			12,124	**1,217**

The majority of above debt is unsecured and was obtained at variable interest rates. The current portion of long-term debt includes the current part of loans from Sberbank and Federal Center of Project Financing, amounting to RR 10,668 million and RR 66 million, respectively, and the bonds issued within the first tranche of RR 1,077 million.

Note 17: Accounts payable and accrued charges

	31 December 2001	31 December 2000
Construction payables	2,069	2,605
Trade payables	954	1,608
Bills of exchange payable	24,250	-
Dividends payable	379	56
Accrued liabilities and other creditors	4,542	4,784
	32,194	**9,053**

The above payables represent the fair value of the underlying obligations. The Company has not paid in full for its interest in Yakutskenergo. The Company has recognised a liability of RR 2,406 million (2000: RR 2,406 million) in respect of this, which is the estimated fair value of consideration to be paid and is included within accrued liabilities and other creditors.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 17: Accounts payable and accrued charges (continued)

At 31 December 2001, bills of exchange payable include RAO UES promissory notes payable to Falcon Capital stated at fair value of RR 24,250 million (par value of RR 40,743 million) as part of the Czech transactions framework (see Note 1). Final settlement on promissory notes was made in February 2002.

In 2001, approximately 27% (2000: 55%) of the Company's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Note 18: Taxes payable

Taxes payable consists of the following:

	31 December 2001	31 December 2000
Value Added Tax	2,044	5,253
Fines and interest	1,908	4,131
Turnover taxes	1,223	1,704
Profits tax	1,025	2,438
Property tax	329	244
Employee taxes	157	211
Other taxes	139	204
Current portion of the taxes payable restructured	513	-
	7,338	**14,185**

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

- in Value Added Tax – RR 1,731 million (2000: RR 1,373 million);
- in Turnover taxes – RR 86 million (2000: RR 95 million).

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 on restructuring the taxes payable is included in Note 22.

Since 31 December 2001 the Company has restructured a further RR 1,295 million of tax principal and RR 1,316 million of tax penalties and interest included in the balances above.

In 2001, approximately 5% (2000: 7%) of the Company's settlements of taxes payable were settled via non-cash settlements.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 19: Operating costs

Included within operating costs is depreciation of RR 7,759 million (2000: RR 7,854 million) and gross staff costs of RR 2,627 million (2000: RR 3,018 million), including approximately RR 602 million (2000: RR 829 million) of employment and related payroll taxes.

Note 20: Earnings per share

	31 December 2001	31 December 2000
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(352,793)	(352,793)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,764,110	42,764,110
Net income / (loss)	21,794	(4,535)
Earnings / (loss) per share – basic and diluted (in Russian Roubles)	0.51	(0.11)

The basic profit per share above is for RAO UES as a parent company on a stand-alone basis. The earnings/(loss) per share for the RAO UES Group is disclosed in the 2001 RAO UES Group consolidated financial statements.

Note 21: Other non-current liabilities

	31 December 2001	31 December 2000
Taxes payable	3,171	-
Other	166	-
Total other non-current liabilities	3,337	-
Less: current portion of restructured liabilities	(513)	-
	2,824	

In accordance with Government Resolution No. 1002 dated 3 September 1999 the Company has 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. Based on the contractual dates of repayment, discount rates of 20 – 25 percent have been used in the estimate of the fair value of these liabilities.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2001)

Note 21: Other non-current liabilities (continued)

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

The maturity profile of taxes payable is as follows:

	31 December 2001	31 December 2000
Between one and two years	1,098	-
Between two and five years	1,327	-
After 5 years	746	-
	3,171	-

Note 22: Monetary effects and financing items

	2001	2000
Monetary loss	(1,503)	(1,839)
Interest expense	(483)	(535)
Foreign exchange (loss) / gain	(254)	(214)
Impairment of other non-current assets	(1,142)	-
Tax interest	(1,647)	(1,971)
Gain on restructuring accounts payable and taxes payable	3,546	-
	(1,483)	(4,559)

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 taxes payable is contained in Note 21.

Note 23: Commitments

Sales commitments. The Company entered into two export contracts: with Fortum Power and Heat Oy ("Fortum") and with Pohjolan Voima Oy. The contract with Fortum is for the supply of a minimum of 1.6 million MWh of electricity per year, at prices between Euro 12.15 and Euro 20.50 per MWh. This contract expires at the end of 2007. The contract with Pohjolan Voima Oy is for the supply of a minimum of 2.7 million MWh of electricity per year, at prices between Euro 16.20 and Euro 16.70 per MWh. This contract expires at the end of 2004.

Social commitments. The Company contributes 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. The charge in respect to these expenditures in 2001 was equal to RR 104 million (2000: RR 71 million).

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 5,347 million at 31 December 2001 (2000: RR 3,519 million).

Guarantees. The Company has issued guarantees to third parties amounting to RR 5,703 million at 31 December 2001, including the guarantees issued to subsidiaries and associates of RR 4,845 million.

Note 24: Contingencies

Political environment. The operations and earnings of the Company 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**.**

Physical risks. Due to the capital intensive nature of the industry, the Company is also subject to physical risks of various kinds. These risks, which generally are covered by insurance are not predictable. These matters could have material effects on the operations of the Company.

Legal proceedings. The Company is 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 Company.

Taxation. Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company 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. The Company and its 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. The Company periodically evaluates its 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 balance sheet.

Note 25: Financial instruments and financial risk factors

Financial risk factors. The Company'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 Company does not have a risk policy in order to hedge its financial exposures.

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

Foreign exchange risk. The Company primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Company'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 23, and US Dollar denominated debt and Russian Rouble denominated debt linked to US Dollar currency movements, as disclosed in Note 16.

Interest rate risk. As discussed in Note 16 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 bonds issued by RAO UES is 7 percent. Assets are generally non-interest bearing.

Note 26: Subsequent events

Loan. After the balance sheet date, the Company obtained a Euro 100 million loan from the European Bank for Reconstruction and Development ("EBRD"). The loan is secured by export sales of the Company, the proceeds of which are restricted for the repayment of the loan. In addition, the Company 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.