RAO UES GROUP
IAS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2001

PRICEWATERHOUSECOOPERS

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AUDITOR'S 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 (hereinafter referred to as the "Group") as at 31 March 2001 and the related consolidated interim statements of operations, of cash flows and of changes in shareholders' equity for the three months then ended. These consolidated interim financial statements, set out at pages 1 through 29, 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. The Group prepared for the first time consolidated interim financial statements in accordance with International Accounting Standards ("IAS") for the three months ended 31 March. Accordingly the accompanying consolidated interim financial statements do not include comparative amounts for the consolidated interim statements of operations, of cash flows and of changes in shareholders' equity for the three months ended 31 March 2000, as required by International Accounting Standards.

4. In our opinion, except for the omission of comparative information as described in paragraph 3, the accompanying consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2001, and the results of its operations and its cash flows for the three months then ended, in accordance with International Accounting Standards.

5. Without further qualifying our opinion, we draw attention to Note 2. The financial statements have been prepared in accordance with accounting policies based on the Group being a going concern. As at 31 March 2001 the Group's current liabilities exceeded its current assets by RR 56,786 million (31 December 2000: RR 76,232 million). Furthermore, as disclosed in Note 2, the Group continues to experience difficulties in settling its tax liabilities, paying its creditors and meeting debts as they fall due. These factors, in addition to the limitations on tariff increases, difficulties in collecting receivables from prior years and economic difficulties, in the Russian Federation, indicate the existence of a material uncertainty which may raise substantial doubt about the ability of the Group to continue as a going concern. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

PricewaterhouseCoopers

Moscow, Russian Federation
19 October 2001

RAO UES Group

Consolidated Interim Balance Sheet as at 31 March 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001)

	Notes	31 March 2001	31 December 2000
Assets			
Non-current assets			
Property, plant and equipment	8	693,494	699,629
Investments in associates	9	4,003	4,035
Other investments	3	8,339	12,122
Other non-current assets	25	8,338	8,656
Total non-current assets		**714,174**	**724,442**
Current assets			
Cash and cash equivalents	10	8,230	8,147
Accounts receivable and prepayments	11	113,170	107,179
Inventories	12	36,411	36,903
Other current assets		7,155	7,049
Total current assets		**164,966**	**159,278**
Total assets		**879,140**	**883,720**
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		115,506	115,506
Preference shares (nominal value RR 1,038 million)		6,006	6,006
Treasury shares		(599)	(598)
		120,913	120,914
Retained earnings and other reserves		261,806	262,286
Total shareholders' equity		**382,719**	**383,200**
Minority interests	14	165,259	160,477
Non-current liabilities			
Deferred profits tax liabilities	15	91,381	86,295
Non-current debt	3,16	12,758	13,216
Other non-current liabilities		5,271	5,022
Total non-current liabilities		**109,410**	**104,533**
Current liabilities			
Current debt and current portion of non-current debt	17	11,867	12,653
Accounts payable and accrued charges	3,18	110,103	122,848
Taxes payable	19	99,782	100,009
Total current liabilities		**221,752**	**235,510**
Total shareholders' equity and liabilities		**879,140**	**883,720**

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

Finance Director — Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Statement of Operations for the three months ended 31 March 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

	Notes	Three months ended 31 March 2001
Revenues		
Electricity		70,609
Heating		26,911
Transmission fees		213
Governmental assistance	20	757
Other		5,087
Total revenues		**103,577**
Costs and other deductions		
Fuel expenses		33,618
Depreciation and amortisation	8	11,828
Wages and payroll taxes		12,978
Taxes other than income		7,348
Purchased power		9,597
Repairs and maintenance		5,343
Other materials		3,338
Loss on disposal of fixed assets and investments		56
Social expenditures		994
Other expenses, net		8,367
Doubtful debtors release		(860)
Total costs and other deductions		**92,607**
Income from operations		**10,970**
Share of income of associates	9	192
Income before monetary effects and taxation		**11,162**
Monetary effects and financing items	21	5,630
Income before taxation		**16,792**
Current profits tax charge		(7,128)
Deferred profits tax charge	15	(4,209)
Share of associate tax charge	9	(224)
Total tax charge	15	**(11,561)**
Income before minority interest		**5,231**
Minority interest: share of net result	14	(3,644)
Net income		**1,587**
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	22	0.04

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

Finance Director Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Cash Flow Statement for the three months ended 31 March 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001)

	Three months ended 31 March 2001
CASH FLOW FROM OPERATING ACTIVITIES:	
Income before taxation	**16,792**
Adjustments to reconcile income before taxation to net cash provided by operations:	
Depreciation and amortisation	11,828
Doubtful debtors release	(860)
Interest expense and gain on restructuring accounts payable, taxes payable and debt	658
Share of income of associates	(192)
Loss on disposal of fixed assets and investments	56
Monetary and unrealised foreign exchange effects on non-operating balances	(1,249)
Adjustment for non-cash investing activities	(4,627)
Other	1,294
Operating income before working capital changes	**23,700**
Increase in accounts receivable and prepayments	(5,131)
Increase in other current assets	(106)
Decrease in inventories	492
Decrease in accounts payable and accrued charges	(9,097)
Decrease in taxes payable other than profits tax	(3,147)
Increase in other non-current liabilities	249
Profits tax paid/non-cash	(757)
Profits tax paid/cash	(3,451)
Net cash provided by operating activities	**2,752**
CASH FLOW FROM INVESTING ACTIVITIES:	
Additions to property, plant and equipment	(2,793)
Proceeds from sale of property, plant and equipment	293
Net proceeds from disposals of other non-current assets	319
Net additions to investments	(86)
Net cash used for investing activities	**(2,267)**
CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds from issuance of current debt	10,711
Proceeds from issuance of non-current debt	1,501
Reduction of debt	(13,514)
Effect of inflation on financing activities	1,816
Interest paid	(353)
Purchase of treasury shares	(1)
Net cash provided by financing activities	**160**
Effect of inflation on cash and cash equivalents	**(562)**
Increase in cash and cash equivalents	**83**
Cash and cash equivalents at the beginning of period	**8,147**
Cash and cash equivalents at the end of period	**8,230**

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

Finance Director — Zhurba D.G.

19 October 2001

RAO UES Group

Consolidated Interim Statement of Changes in Shareholders' Equity for the three months ended 31 March 2001

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 31 December 2000, as previously reported	115,506	6,006	(598)	262,286	383,200
Adoption of IAS 39 (see Note 3)	-	-	-	(2,067)	(2,067)
At 31 December 2000, as adjusted	115,506	6,006	(598)	260,219	381,133
Net income	-	-	-	1,587	1,587
Purchase of treasury shares, net	-	-	(1)	-	(1)
At 31 March 2001	115,506	6,006	(599)	261,806	382,719

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

Finance Director — Zhurba D.G.

19 October 2001

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 31 March 2001. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Despatch Centre ("CDC") and Regional Despatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

All member companies of the Group are incorporated under the laws of the Russian Federation (the "state").
The Group performs the following major activities:

High voltage network: The high voltage network connects all but two 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.

The Russian Federation Government Resolution No. 526 dated 11 July 2001 approved guidelines for reform of the Russian utilities and specified further steps relating to industry reform and, specifically reform of the Group. The Government Directive No. 1040-p dated 3 August 2001 approved an Action Plan for the first stage of the Electric Utilities Reform. It is planned to restructure the industry in order to de-monopolise it, introduce competition and raise investments. See further details in Note 24 – Industry Changes.

At 31 March 2001, the number of employees of the Group was approximately 672,000 (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").

Relations with the state. At 31 March 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 13, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Energy Commission ("FEC"), with respect to its wholesale energy sales, and by the Regional Energy Commissions ("RECs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed 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.

Note 1: The Group and its operations (continued)

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

Note 2: Going concern

At 31 March 2001, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 56,786 million (31 December 2000: RR 76,232 million). The Group continues to experience difficulties settling its tax liabilities, paying trade creditors and meeting debts as they fall due. Certain other Group entities are also currently defending claims from creditors made against them in Arbitration Courts. In addition, two Group entities are currently in receivership. The total net assets of these two entities as at 31 March 2001 amounted to RR 518 million. They have been treated as investments and are carried at cost, as disclosed in Note 5.

The Group continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales and the cash content within these settlements. Despite this success there still remains a significant level of uncollected accounts receivable from earlier periods. 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. In addition, the budgets for many governmental organisations have declined, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 March 2001.

As discussed above, 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 often do not allow for an adequate return or provide sufficient funds for the full replacement of property, plan and equipment. In addition, the Group is experiencing difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

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;
- onerous currency controls;
- a low level of liquidity in the public and private debt and equity markets;
- persistent high inflation.

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 2: Going concern (continued)

Management believes that the factors noted above, among other effects, continue to affect the Group's earnings and its ability to invest in property, plant and equipment. Despite the economic conditions described above management believes that the Group will be able to continue as a going concern for the foreseeable future. The Group's operations are of strategic importance to the Russian economy. Management has taken steps which have improved collections and the proportion of cash within collections. Difficulties still remain in respect to the collection of receivables for prior years. Improvements in tariff rates have been obtained, but these increases are not sufficient to match all cost increases, or provide an appropriate level of return. Management is continuing its efforts with respect to collecting old receivables, obtaining additional tariff increases, and is also discussing with principal suppliers the continued supply of fuel and other materials, together with the restructuring of past due payables. Potential new sources of finance for investment are also being sought. The eventual outcome of these measures is uncertain.

The Group's financial statements have been presented in accordance with accounting policies based on the Group being a going concern. The going concern basis contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might result should the Group be unable to continue as a going concern.

Note 3: Basis of presentation

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 (see Note 4), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS").

The preparation of consolidated 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 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, deferred profits taxes and the allowance for doubtful debtors. 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"). 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 31 March 2001, and the respective conversion factors are:

Date	Index	Conversion Factor
31 December 1996	594,110	3.60
31 December 1997	659,403	3.24
31 December 1998	1,216,400	1.76
31 December 1999	1,661,481	1.29
31 December 2000	1,995,909	1.07
31 March 2001	2,138,866	1.00

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 3: Basis of presentation (continued)

The significant guidelines followed in restating these financial statements are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31 March 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 March 2001;
- as described in Note 4, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 4, management assesses the recoverability of property, plant and equipment. The appraisal values and the impact of any impairment have been restated by applying relevant conversion factors 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 March 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 6,608 million for the period ended 31 March 2001 because on average the Group had net monetary liabilities during this period. Since 31 March 2001, inflation has continued. As at 31 August 2001 the CPI was 2,263,284 (1988 = 100), representing inflation of 5.82 percent since 31 March 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 (IAS "39"). 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 opening balance sheet (not presented) has been restated in order to reflect the new measurement requirements of IAS 39, and the resulting adjustments, shown below, were taken to retained earnings and other reserves in accordance with the transitional provisions.

	Total effect to items measured Increase / (decrease)	**Deferred profits tax liabilities** Increase / (decrease)	**Minority interests** Increase / (decrease)	**Retained earnings and other reserves** Increase / (decrease)
Other investments	(2,910)	-	-	(2,910)
Accounts payable, taxes payable, debt	(2,575)	877	855	843
		877	855	(2,067)

Other investments reflects the assessment by management of the fair value of these assets. Accounts payable and taxes payable are comprised of specific amounts payable which have been renegotiated with creditors for long-term repayment, while the adjustment to debt arises from loans obtained at rates lower than those normally commercially available.

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 or unless they will need to be sold to raise operating capital, 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 comprised of non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to a variety of methods including estimated discounted value of future cash flows.

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 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.

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

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 at 31 March 2001 was 28.74:1 (31 December 2000: 28.16:1). Significant 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 Russian Federation.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 4: Summary of significant accounting policies (continued)

Dividends. Dividends are recognised only if they are declared on or prior to the balance sheet date.

Property, plant and equipment. Property, plant and equipment as at 31 March 2001 is stated at depreciated replacement cost, based upon values determined by professional valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation by applying relevant conversion factors from the appropriate date. Management assesses the recoverability of property, plant and equipment. Any impairment loss reduces the depreciable base of property, plant and equipment.

Additions are recorded at cost. 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

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. 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 "Financial Reporting in Hyperinflationary Economies." 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 transactions 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 include “veksels” or “promissory notes” 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.

Note 4: Summary of significant accounting policies (continued)

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. An allowance for doubtful debtors as determined by Group management is recorded to reduce the carrying value of accounts receivable to their estimated net recoverable amount based on an analysis of expected future cash flows.

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 to the equivalent purchasing power of the Russian Rouble at 31 March 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 deductible temporary differences 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, at the current withholding tax rate of 15 percent, 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.

If accounts payable are restructured 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 effect and financing items) as a fair value gain, 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 non-Group 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.

Note 4: Summary of significant accounting policies (continued)

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the outflow 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. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian Rouble as at the balance sheet date. Any gains or losses arising on the disposal of treasury shares are recorded in the statement of changes in shareholders' equity.

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

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 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 %
Centre			***South***		
Astrakhanenergo	49.0	49.0	Dagenergo	51.1	51.1
Belgorodenergo	49.0	65.3	Kabbalkenergo	53.7	66.1
Ivenergo	49.7	56.6	Kalmenergo	96.4	96.4
Kalugaenergo	49.0	49.0	Karachaevo-Cherkesskenergo	100.0	100.0
Kostromaenergo	49.0	65.3	Kubanenergo	49.0	49.0
Kurskenergo	49.4	59.8	Rostovenergo	48.4	62.8
Lipetskenergo	49.0	49.0	Sevkavkazenergo	49.0	49.0
Mosenergo	50.9	50.9	Stavropolenergo	54.8	71.5
Nizhnovenergo	49.0	62.3			
Orelenergo	49.5	60.6	***Ural***		
Ryazanenergo	49.0	49.0			
Tambovenergo	49.0	56.0	Chelyabenergo	49.0	58.1
Tulaenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Kurganenergo	49.0	53.8
Vladimirenergo	49.1	49.1	Orenburgenergo	100.0	100.0
Volgogradenergo	49.0	61.3	Permenergo	49.0	64.4
Vologdaenergo	49.0	49.0	Sverdlovenergo	49.0	65.3
Voronezhenergo	49.0	65.3	Tumenenergo	100.0	100.0
Yarenergo	47.8	64.3	Udmurtenergo	49.0	55.4
North-West			***Siberia***		
Arkhenergo	49.0	59.1	Altaienergo	54.7	72.2
Bryanskenergo	49.0	65.2	Buryatenergo	47.6	47.6
Karelenergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	65.5	Khakasenergo	100.0	100.0
Komienergo	49.0	49.2	Krasnoyarskenergo	51.7	66.3
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	51.9	59.8
Smolenskenergo	48.7	59.3			
Yantarenergo	100.0	100.0	***East***		
Middle Volga			Amurenergo	52.5	61.6
			Dalenergo	49.0	65.3
Chuvashenergo	100.0	100.0	Khabarovskenergo	49.0	61.0
Marienergo	64.4	70.1	Kolymaenergo	83.8	83.8
Mordovenergo	53.2	53.2	Kamchatskenergo	49.0	59.2
Penzaenergo	49.0	60.2	Magadanenergo	49.0	64.4
Samaraenergo	49.2	56.3	Sakhalinenergo	49.0	49.0
Saratovenergo	49.8	64.6	Yakutskenergo	49.0	58.1
Ulyanovskenergo	49.0	65.3			

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	75.2	73.7	Taimyrenergo	100.0	100.0
Kabbalk GES	75.9	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	92.5	97.3
Sulakenergo	99.5	99.5	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	51.7	51.7	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	55.5	60.1	Cherkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Zeyagesstroi	100.0	100.0

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Central Despatch Centre	100.0	100.0	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 in its subsidiaries. Such preference shares do not have any voting rights, unless dividends have not been declared fully at the Annual Shareholders' meeting.

RAO UES holds voting interest of 71.6 percent in Grozenergo. This entity is situated in the City of Grozny in the Chechen Republic. Currently, the Republic is experiencing a time of social upheaval and military intervention. RAO UES holds voting interests of 31.7 percent in Biskaya TETS. This entity has been placed in receivership as a consequence of bankruptcy proceedings. RAO UES holds voting interest of 100.0 percent in Sevkavgidroenergostroi. In August 2000, bankruptcy procedures were initiated against this entity. RAO UES no longer has control or significant influence over the above three entities and, accordingly, they have been accounted for as Other investments.

Note 5: Principal subsidiaries (continued)

RAO UES holds interests of 66.3 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.

Subsequent to the period end, the Group acquired a controlling interest in OOO Media-Holding REN-TV, an entity which holds television broadcasting equipment and licenses. Prior to the acquisition, the Group held debt of one of the entities of the REN-TV Group. The controlling interest was acquired in exchange for the debt, which is included in other current assets at the balance sheet date.

During the period ended 31 March 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 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 6: Segment information (continued)

Three months ended 31 March 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	8,730	101,329	10,620	395	-	121,074
Inter-group revenues	(6,576)	(1,167)	(9,754)	-	-	(17,497)
Total revenues	2,154	100,162	866	395	-	103,577
Segment income	2,952	6,610	434	276	698	10,970
Share of income of associates	-	192	-	-	-	192
Monetary effects						5,630
Income before taxation						16,792
Total tax charge						(11,561)
Income before minority interest						5,231
Minority interest: share of net result						(3,644)
Net income						1,587
Capital expenditures	905	3,687	2,030	208	-	6,830
Depreciation and amortisation	2,012	8,426	1,364	26	-	11,828
Doubtful debtors expense / (release)	61	(602)	(285)	(34)	-	(860)

As at 31 March 2001:	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Segment total assets	292,243	631,327	108,449	7,788	(164,670)	875,137
Associates	-	3,879	-	124	-	4,003
Total assets	292,243	635,206	108,449	7,912	(164,670)	879,140
Segment liabilities	52,446	260,250	47,372	2,163	(31,069)	331,162

As at 31 December 2000:						
Segment total assets	295,916	627,406	111,639	7,860	(163,136)	879,685
Associates	-	3,911	-	124	-	4,035
Total assets	295,916	631,318	111,639	7,984	(163,136)	883,720
Segment liabilities	50,826	268,182	50,074	2,498	(31,537)	340,043

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 6: Segment information (continued)

Secondary reporting segments - geographical segments. The Group operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. Group entities have been aggregated within these geographical areas based on the area where their assets are located, with the exception of the 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.

	Revenues	Total assets		Capital expenditures
	Three months ended 31 March 2001	31 March 2001	31 December 2000	Three months ended 31 March 2001
RAO UES segment	8,730	292,243	295,916	905
Centre	34,603	227,985	230,394	1,328
North-West	12,383	68,841	68,302	1,611
Urals	25,299	167,181	164,516	682
Siberia	13,609	104,123	96,728	830
Mid-Volga	7,881	50,548	51,063	236
East	10,237	78,544	85,379	877
South	8,332	54,345	54,558	361
	121,074	1,043,810	1,046,856	6,830
Consolidation adjustments	(17,497)	(164,670)	(163,136)	-
	103,577	879,140	883,720	6,830

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 (veksels). A member of the management board of RAO UES is also a member of the board of directors of Eurofinance. The commissions and the interest charged by Eurofinance to RAO UES were RR 30 million for the three months ended 31 March 2001. Commission and interest tended to approximate market rates. As at 31 March 2001 RAO UES held RR nil of promissory notes of Eurofinance (31 December 2000: RR 896 million). The balance outstanding due to RAO UES from Eurofinance was RR 750 million and RR 189 million as at 31 March 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 31 March 2001
Electricity revenues	16
Purchased power	7
Transmission fee income	116
Rental fee income	9

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 7: Related parties (continued)

Directors' compensation. Compensation is paid to members of the management board of RAO UES for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period 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.

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 for the three months ended 31 March 2001. 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 23).

Note 8: Property, plant and equipment

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Appraised value or cost							
Opening balance as at 31 December 2000	521,435	164,018	533,818	94,616	205,860	170,282	1,690,029
Additions	29	1	15	5	6,220	560	6,830
Transfers	1,857	6	432	45	(3,386)	1,046	-
Disposals	(929)	(10)	(704)	(69)	(1,096)	(559)	(3,367)
Closing balance as at 31 March 2001	522,392	164,015	533,561	94,597	207,598	171,329	1,693,492
Accumulated depreciation							
Opening balance as at 31 December 2000	(315,804)	(78,973)	(360,315)	(59,598)	(69,968)	(105,742)	(990,400)
Charge for the period	(2,989)	(1,390)	(3,280)	(844)	-	(3,325)	(11,828)
Disposals	743	5	414	45	623	400	2,230
Transfers	(777)	-	(183)	(19)	1,417	(438)	-
Closing balance as at 31 March 2001	(318,827)	(80,358)	(363,364)	(60,416)	(67,928)	(109,105)	(999,998)
Net book value as at 31 December 2000	205,631	85,045	173,503	35,018	135,892	64,540	699,629
Net book value as at 31 March 2001	203,565	83,657	170,197	34,181	139,670	62,224	693,494

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 8: Property, plant and equipment (continued)

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. Many of these construction projects are joint ventures between RAO UES and energos or other third parties, each party contributing cash and assets to the venture. Where the Group owns a majority of the venture, the full carrying value of the project is included in construction in progress. The non-Group ownership interest is recorded as minority interests. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the venture. When construction projects are completed the cost, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

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:

	Three months ended 31 March 2001
Non-cash acquisitions	5,321
Non-cash proceeds from the sale of property, plant and equipment	692

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

Impairment. For the period ended 31 March 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 within the accumulated depreciation balance as at 31 March 2001 is RR 697,775 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.

	Three months ended 31 March 2001		Year ended 31 December 2000	
Enterprise name	**% Ownership**	**% Voting**	**% Ownership**	**% Voting**
Bashkirenergo	21.3	22.3	21.3	22.3
Novosibirskenergo	14.2	16.9	14.2	16.9

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Note 9: Investments in associates (continued)

	Bashkir-energo	Novosibirsk-energo	Other	Total
Carrying value as at 31 December 2000	2,770	1,141	124	4,035
Share of income/(loss) of associates	242	(50)	-	192
Share of associates' tax charge	(171)	(53)	-	(224)
Carrying value as at 31 March 2001	2,841	1,038	124	4,003

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 the purchasing power of the Russian Rouble as at 31 March 2001.

Note 10: Cash and cash equivalents

	31 March 2001	31 December 2000
Cash at bank and in hand	7,236	6,816
Cash equivalents	584	1,244
Foreign currency accounts	405	75
Restricted cash	5	12
	8,230	8,147

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

Note 11: Accounts receivable and prepayments

	31 March 2001	31 December 2000
Trade receivables (Net of allowance for doubtful debtors of RR 75,805 million as at 31 March 2001 and RR 82,752 million as at 31 December 2000)	62,967	57,016
Value added tax recoverable	19,057	19,758
Other receivables (Net of allowance for doubtful debtors of RR 6,247 million as at 31 March 2001 and RR 6,970 million as at 31 December 2000)	16,545	15,022
Advances to suppliers	12,556	13,554
Receivables from associates	860	990
Prepayments	1,185	839
	113,170	107,179

Management has determined the allowances for doubtful debtors based on specific customer identification, industry payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The management of the Group believe that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements. For the three months ended 31 March 2001, approximately 12 percent of the settlements of the Group's accounts receivable and prepayments were made via non-cash settlements.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 12: Inventories

	31 March 2001	31 December 2000
Fuel production stocks	7,770	8,219
Materials and supplies	26,486	26,634
Other inventories	2,155	2,050
	36,411	36,903

The above inventory balances are recorded net of an obsolescence provision of RR 1,695 million and RR 1,897 million as at 31 March 2001 and 31 December 2000, respectively.

Note 13: Shareholders' equity

Share capital.

	Number of shares issued and fully paid	31 March 2001	31 December 2000
Ordinary shares	41,041,753,984	115,506	115,506
Preference shares	2,075,149,384	6,006	6,006
		121,512	121,512

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 are not convertible into ordinary shares and 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. 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.

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 of 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 April 2001 in respect of the year ended 31 December 2000 of RR 0.0200 per ordinary share (in respect of 1999: RR 0.0168 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0738 per preference share (in respect of 1999: RR 0.0473 per preference share, RR 0.0367 per preference share uninflated).

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Note 13: Shareholders' equity (continued)

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.

Treasury shares. Treasury shares as at 31 March 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 31 March 2001
Ordinary shares	551	1	552
Preference shares	47	-	47
	598	1	599

Note 14: Minority interests

	Three months ended 31 March 2001
Opening balance	160,477
Share of net result	3,644
Adoption of IAS 39 (see Note 3)	855
Acquisitions and changes in Group structure	283
Closing balance	165,259

Note 15: Deferred profits 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. 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 15: Deferred profits tax (continued)

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

	Three months ended 31 March 2001
Income before taxation	**16,792**
Theoretical tax charge at an average statutory tax rate of 35% thereon	(5,877)
Tax effect of items which are not deductible or assessable for taxation purposes:	
Net non-deductible expenses	(1,609)
Non-temporary elements of monetary gains / losses	(14,724)
Doubtful debtors expense	301
Tax interest and penalties	(1,140)
Inflation effect on deferred tax balance at beginning of the period	5,766
Temporary difference in statutory revaluation of tax base	5,683
Non-recognised deferred tax assets movements	1,976
Other	(1,937)
Total tax charge	(11,561)

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. The tax effect of the movement on these temporary differences is recorded at the rate of 35 percent for most Group members.

Deferred profits tax liability	31 March 2001	Movement for the quarter	Adoption of IAS 39	31 December 2000
Trade receivables	8,831	1,507	-	7,324
Property, plant and equipment	82,914	2,664	-	80,250
Accounts payable	58	(599)	877	(220)
Inventories	(442)	333	-	(775)
Other	20	304	-	(284)
	91,381	4,209	877	86,295

Deferred profits tax asset	31 March 2001	Movement for the quarter	Adoption of IAS 39	31 December 2000
Trade receivables	(904)	(907)	-	3
Property, plant and equipment	17,224	(694)	-	17,918
Accounts payable	(174)	(242)	-	68
Inventories	(55)	(132)	-	77
Other	688	(1)	-	689
	16,779	(1,976)	-	18,755
Less non-recognised deferred tax asset	(16,779)	1,976	-	(18,755)
	-	-	-	-

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 15: Deferred profits tax (continued)

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

In August 2001, a profit tax rate of 24% was enacted, effective from 1 January 2002. As this tax rate was not enacted or substantively enacted at 31 March 2001, the effect of the change in tax rate on deferred tax liabilities is not recognised in these interim financial statements. The effect of the change on closing deferred tax liabilities balance will be reflected in the financial statements for the period ended 30 September 2001.

Note 16: Non-current debt

	Currency	Contractual interest rate	Due	Three months ended 31 March 2001	31 December 2000
Bank debt in Russian banks	RR	0% – 20%	2001 and thereafter	344	221
Bank debt in Russian banks	Hard currency	0% – 20%	2001 and thereafter	201	281
Bank debt in Russian banks	RR	21%-40%	2001 and thereafter	382	527
Bank debt in Russian banks	RR	> 40%	2001 and thereafter	32	25
Eurobond	US$	8.4%	2002-2003	4,462	4,685
Bonds – RAO UES	RR /US$	5%	2002-2003	3,000	3,215
Bonds issued by subsidaries	RR/ US$	8%	2003	3,455	3,702
Central government loans	RR	0% – 20%	2001 and thereafter	2,385	2,359
Central government loans	RR	21% – 40%	2001 and thereafter	27	173
Central government loans	RR	> 40%	2001 and thereafter	218	245
Regional government loans	RR	0% – 20%	2001 and thereafter	587	488
Foreign banks	US$	0% – 20%	2001 and thereafter	1,373	1,207
Other long-term debt				638	551
Total non-current debt				17,104	17,679
Less: current portion of non-current debt				(4,346)	(4,463)
				12,758	13,216

In accordance with IAS 39, at their inception the borrowings have been stated at fair value, determined using market interest rates applicable to the Group at the times the loans were originated. For Russian Rouble debt, the rate used to determine the fair value of the Group's loans was 20%. For US Dollar and hard currency loans, the applicable rate was 8%.

Maturity Table.

	31 March 2001	31 December 2000
Due for re-payment		
Between one and two years	5,817	1,400
Between two and five years	6,158	11,809
After 5 years	783	7
	12,758	13,216

A significant amount of the Group's current and non-current debt is supported by promissory notes given by the Group entities that obtained the loan. The majority of the above debt is obtained at a variable interest rate.

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

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 16: Non-current debt (continued)

At the balance sheet date, the fair value of long-term debt, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments, did not materially differ from the carrying amount of this financial instrument.

Note 17: Current debt and current portion of non-current debt

	Contractual interest rate	31 March 2001	31 December 2000
Current debt*	0-20%	3,925	4,726
Current debt	21-40%	3,596	3,424
Current debt	>40%	-	40
Current portion of non-current debt		4,346	4,463
		11,867	12,653

* Holders of these bonds have the right to early redemption. As a consequence, these bonds were classified as current debt.

Note 18: Accounts payable and accrued charges

	31 March 2001	31 December 2000
Trade payables	86,059	94,878
Promissory notes payable	1,466	2,437
Payables to associates	46	56
Dividends payable	341	468
Accrued liabilities and other creditors	22,191	25,009
	110,103	122,848

In the three months ended 31 March 2001, approximately 21 percent of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Accounts payable that have been renegotiated with creditors have been assessed for fair value using a discount rate of 20%.

Note 19: Taxes payable

	31 March 2001	31 December 2000
Value added tax	34,126	35,197
Fines and interest	32,067	31,104
Turnover taxes	10,086	11,587
Employee taxes	6,550	7,135
Profits tax	8,939	6,550
Property tax	2,968	2,040
Other taxes	5,046	6,396
	99,782	100,009

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 19: Taxes payable (continued)

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 12,032 million (31 December 2000: RR 10,762 million); and
- in Turnover taxes – RR 859 million (31 December 2000: RR 781 million).

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

For the three months ended 31 March 2001, approximately 4 percent of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 20: Governmental assistance

During the three months ended 31 March 2001 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 600 million for certain entities in the Far East region and RR 157 million for other Group entities. The assistance in respect of this period has been credited to the statement of operations.

Note 21: Monetary effects and financing items

	Three months ended 31 March 2001
Monetary gain	6,608
Interest expense	(1,065)
Foreign exchange loss	(320)
Gain on restructuring accounts payable, taxes payable and debt	407
	5,630

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble as at 31 March 2001, except as disclosed)

Note 22: 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 31 March 2001
Weighted average number of ordinary shares outstanding (thousands)	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(418,194)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,698,709
Net income	1,587
Earnings per ordinary and preference share - basic and diluted (in Russian Roubles)	0.04

Note 23: Commitments

Sales commitments. The Group entered into two export contracts with Fortum Power and Heat Oy ("Fortum"), a shareholder of Lenenergo. One contract 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.

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 April 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 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 28,312 million at 31 March 2001, and RR 24,428 million at 31 December 2000.

Guarantees. At the period end, the Group had issued guarantees not to exceed US$ 250 million in favour of subcontractors carrying out construction work at one of its subsidiaries.

Note 24: 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.

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

The industry structure will also change. 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"): it is planned that during the first stage through December 2002, the Group will hold a 50% vote in the Supervisory Council of the TSA.

- The Group has developed proposals for the establishment of a Federal Grid Company. These will be considered by the Group's Board of Directors in the autumn of 2001.

- Starting in the fourth quarter of 2001 independent generators will begin to be established. At a regional level, regional grid companies will be established based on the regional energos for the purpose of non-discriminatory access for all electricity generators and customers to the grid. The subsidiaries and associates of the Group have already taken steps to prepare for this reform.

- In the first quarter of 2002, a System Operator (in charge of electricity despatch) will be put into place.

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

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 25: 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.

Additionally, a number of Group entities have placed with foreign banks contracts for the repurchase of Russian debt instruments. The repurchase contracts amount to RR 6,782 million and are reflected within other non-current assets at their estimated fair value. These contracts mature in 2003. If these are not effective then the total Group exposure is RR 6,455 million.

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 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 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 subidiaries are 5 percent and 8 percent, respectively. Assets are generally non-interest bearing.

Note 26: Subsequent events

In October 2001, the Group obtained a Euro 100 million credit facility from the European Bank for Reconstruction and Development. The facility expires in April 2005.