RAO UES GROUP
IAS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999

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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 balance sheet of RAO UES and its subsidiaries (hereinafter referred to as the "Group") as of 31 December 1999 and the related consolidated 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 29, are the responsibility of the Group'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. As discussed in Note 8, the Company recorded impairment losses for the year ended 31 December 1998 of RR 654,266 million related to property, plant and equipment. As also indicated in Note 8, it was not possible for management to determine the portion of the impairment loss recorded in 1998 which existed and should have been recorded at 31 December 1997, as required by International Accounting Standards ("IAS"). Any such portion would reduce the 1998 net loss and correspondingly reduce the 31 December 1997 balance of shareholders' equity.

4. In our opinion, except for the effect on the corresponding figures 1998 of the matter referred to in paragraph 3, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 1999 and the results of its operations and its cash flows for the year 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. For the year ended 31 December 1999, the Group incurred a net loss of RR 9,861 million (1998: RR 443,020 million), and as of 31 December 1999 the Group's current liabilities exceeded its current assets by RR 63,832 million. Furthermore, as disclosed in Note 2, the Group continues to experience difficulties in settling its tax liabilities, paying its creditors and in 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 be able 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
9 October 2000

RAO UES Group

Consolidated Balance Sheet as at 31 December 1999

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

	Notes	31 December 1999	31 December 1998
Assets			
Non-current assets			
Property, plant and equipment	8	521,843	530,212
Investments in associates	9	10,981	9,464
Other investments		11,020	11,542
Other non-current assets		2,093	1,343
Total non-current assets		545,937	552,561
Current assets			
Cash and cash equivalents	10	1,656	1,591
Accounts receivable and prepayments	11	111,814	138,976
Inventories	12	26,373	35,914
Other current assets		2,513	1,985
Total current assets		142,356	178,466
Total assets		688,293	731,027
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 20,521 millions)		89,726	89,726
Preference shares (nominal value RR 1,038 millions)		4,666	4,666
Treasury shares		(445)	(422)
		93,947	93,970
Retained earnings and other reserves		202,552	212,744
Total shareholders' equity		296,499	306,714
Minority interests	4, 14	114,897	128,004
Non-current liabilities			
Deferred profits tax liabilities	15	60,065	49,204
Non-current debt	16	6,511	7,343
Other non-current liabilities		4,133	1,093
Total non-current liabilities		70,709	57,640
Current liabilities			
Current debt and current portion of non-current debt	17	11,628	10,435
Accounts payable and accrued charges	18	117,006	152,798
Taxes payable	19	77,554	75,436
Total current liabilities		206,188	238,669
Total shareholders' equity and liabilities		688,293	731,027

Chairman of the Management Board — Chubais A. B.

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

9 October 2000

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RAO UES Group

Consolidated Statement of Operations for the year ended 31 December 1999

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

	Notes	Year ended 31 December 1999	Year ended 31 December 1998
Revenues			
Electricity		147,059	245,613
Heating		43,238	81,965
Transmission fees		2,125	3,606
Governmental assistance	20	1,984	3,445
Other		22,011	36,785
Total revenues		216,417	371,414
Costs and other deductions			
Fuel expenses		62,714	113,987
Depreciation and amortisation	8	33,070	73,600
Wages and payroll taxes		32,669	39,236
Taxes other than income		25,128	38,492
Purchased power		18,731	33,264
Doubtful debtors expense		1,350	24,482
Repairs and maintenance		16,579	27,150
Other materials		21,944	20,050
Loss on disposal of fixed assets and investments		3,404	13,934
Social expenditures		3,973	13,189
Other expenses		20,309	49,967
		239,871	447,351
Impairment loss	8	-	654,266
Total costs and other deductions		239,871	1,101,617
Loss from operations		(23,454)	(730,203)
Share of income/(loss) of associates	9	2,092	(31,356)
Loss before monetary effects and taxation		(21,362)	(761,559)
Monetary gain	3	23,990	70,767
Interest expense		(3,164)	(3,769)
Foreign exchange loss		(2,688)	(12,277)
Loss before taxation		(3,224)	(706,838)
Current profits tax charge		(7,728)	(10,961)
Deferred profits tax (charge)/benefit	15	(11,925)	62,747
Share of associate tax (charge)/benefit	9	(583)	2,086
Total tax (charge)/benefit	15	(20,236)	53,872
Loss before minority interest		(23,460)	(652,966)
Minority interest: share of net loss	14	13,599	209,946
Net loss		(9,861)	(443,020)
Loss per share – ordinary shares (in Russian roubles)	4,21	(0.24)	(10.9)

Chairman of the Management Board — Chubais A. B.

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9 October 2000

RAO UES Group

Consolidated Statement of Cash Flows for the year ended 31 December 1999

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999

	Notes	Year ended 31 December 1999	Year ended 31 December 1998
CASH FLOW FROM OPERATING ACTIVITIES:	4		
Loss before taxation		**(3,224)**	**(706,838)**
Adjustments to reconcile net loss before taxation to net cash provided by operations:			
Depreciation and amortisation		33,070	73,600
Impairment loss		-	654,266
Doubtful debtors expense		1,350	24,482
Interest expense		3,164	3,769
Share of (income)/loss of associates		(2,092)	31,356
Loss on disposal of fixed assets and investments		3,404	13,934
Monetary and unrealised foreign exchange effect on non-operating balances		(4,002)	(7,312)
Adjustment for non-cash investing activities		(27,232)	(39,817)
Other		(7)	(56)
Operating income before working capital changes		**4,431**	**47,384**
Decrease in accounts receivable and prepayments		25,812	59,915
(Increase)/decrease in other current assets		(528)	927
Decrease in inventories		9,541	3,685
Decrease in accounts payable and accrued charges		(37,115)	(72,621)
Increase/(decrease) in taxes payable other than profits tax		2,510	(30,244)
Increase in other non-current liabilities		3,040	75
Profits tax paid/non-cash		(5,034)	(6,157)
Profits tax paid/cash		(3,086)	(1,217)
Net cash (used in) / provided by operating activities		**(431)**	**1,747**
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	8	(3,817)	(5,360)
Proceeds from sale of property, plant and equipment		1,899	542
Purchase of investments		(75)	(529)
Proceeds from the sale of investments		395	964
Net proceeds / (additions) from other non-current assets		(75)	20
Net cash used for investing activities		**(1,673)**	**(4,363)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of current debt		7,173	9,798
Proceeds from issuance of non-current debt		3,494	10,560
Reduction of loans		(10,574)	(23,866)
Effect of inflation on financing activities		4,763	9,423
Interest paid		(1,667)	(2,454)
Dividends paid		(493)	(1,057)
Proceeds from sale of treasury shares		2	44
Purchase of treasury shares		(36)	(33)
Net cash provided by financing activities		**2,662**	**2,415**
Effect of inflation on cash and cash equivalents		**(493)**	**(1,403)**
Increase/(decrease) in cash and cash equivalents		**65**	**(1,604)**
Cash and cash equivalents at the beginning of year		**1,591**	**3,195**
Cash and cash equivalents at the end of year	10	**1,656**	**1,591**

Chairman of the Management Board — Chubais A. B.

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

9 October 2000

RAO UES Group

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 1999

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 1998	89,726	4,666	(440)	656,296	750,248
Net loss	-	-	-	(443,020)	(443,020)
Dividends	-	-	-	(540)	(540)
Disposal of treasury shares (net)	-	-	18	8	26
At 31 December 1998	89,726	4,666	(422)	212,744	306,714
At 1 January 1999	89,726	4,666	(422)	212,744	306,714
Net loss	-	-	-	(9,861)	(9,861)
Dividends	-	-	-	(320)	(320)
Addition of treasury shares (net)	-	-	(23)	(11)	(34)
At 31 December 1999	89,726	4,666	(445)	202,552	296,499

Chairman of the Management Board Chubais A. B.

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

9 October 2000

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.

Specifically, the following assets of RAO UES which remain in service as of the balance sheet date represent assets transferred to RAO UES upon privatisation:

> ***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 Central Despatch Centre ("CDC"), a 100 percent owned subsidiary of RAO UES, is responsible for system control and operates the wholesale electricity market;
>
> ***Generating stations:*** Thirteen generating stations were transferred to RAO UES, of these ten stations are rented to Group entities. The remaining stations operate as electricity producers and sell electricity direct to the wholesale energy market;
>
> ***Regional generation and distribution companies:*** RAO UES received ownership interest in 70 regional generation and distribution companies ("energos"). These ownership interests range from 14.2 percent to 100 percent; and
>
> ***Other:*** In addition, a number of other utility-related enterprises and construction companies were transferred to RAO UES.

The RAO UES Group (hereinafter referred to as the "Group") consists of RAO UES and its related subsidiaries and associates as at 31 December 1999. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the Central Despatch Centre 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 (hereinafter referred to as "the state").

In accordance with the Governmental Decree Number 829 on 19 July 1999, the Group's management continues to explore the potential restructuring of the Group. As at the date of the issuance of these financial statements no formal plan in respect of this potential restructuring has been approved by management.

At 31 December 1999, the number of employees of the Group was approximately 664,000 (1998: 660,000)

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

Relations with the state. At 31 December 1999, the Russian Federation owned 52.7 percent of RAO UES, which represents 54.9 percent of 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 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 in respect to the supply of electricity and the supply of 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 23, the government's economic, social and other policies could have material effects on the operations of the Group.

Note 2: Going concern

For the year ended 31 December 1999, the Group incurred a net loss of Russian roubles ("RR") 9,861 million (1998: RR 443,020 million). Moreover, at 31 December 1999, the Group's current liabilities exceeded its current assets by RR 63,832 million (1998: RR 60,203 million). The Group continues to experience difficulties settling its tax liabilities, paying trade creditors and its employees' salaries, and meeting debts as they fall due. In addition, two Group entities are currently in receivership. The total net assets of these entities as at 31 December 1999 amount to RR 10,122 million. These entities have been treated as investments and are carried at cost, as disclosed in Note 5. Certain other Group entities are also currently defending claims from creditors made against them in Arbitration Courts.

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 significant additional costs under an IAS basis of accounting.

In common with many Russian companies, the Group continues to experience significant non-payment or slow payment for its services. This has an adverse impact on the Group's cash flow. Despite legislation enabling the Group to cut off non-payers, the Group is only able to cut off non-payers to a certain extent due to social factors. Market reforms have reduced the budgets for many governmental organisations. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 December 1999.

The Russian Federation continues to experience economic difficulties following the financial crisis of August 1998. Consequently, there is continued volatility in the debt and equity market, hyperinflation persists, confidence in the banking sector has yet to be restored and there continues to be general lack of liquidity in the economy. In addition, laws and regulations affecting businesses operating with the Russian Federation continue to evolve. The Russian Federation's return to economic stability is dependent to a large extent on the effectiveness of the measures taken by the government, decisions of international lending organizations, and other actions including regulatory and political developments, which are beyond the Group's control. The Group's assets and operations could be at risk if there are any further significant adverse changes in the political and business environment. Management is unable to predict what effect those uncertainties might have on the future financial position of the Group.

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 recover its investments in property, plant and equipment and accounts receivable. 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 cash collections. As a consequence of these measures management has increased both the level of collections and the proportion of cash within collections. Difficulties still remain in respect to the collection of receivables for prior years. Improvement of tariff rates has been obtained. However, these tariff increases are not sufficient to match all cost increases, or provide an appropriate level of return. Management is continuing its efforts with respect to further improving collections and obtaining additional tariff increases. Management is continuing to discuss with principal suppliers the continued supply of fuel and other materials. Group management is also discussing potential new sources of finance. 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 8), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee.

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 to the impairment provision, deferred profits taxes and the allowance for doubtful accounts. 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 1999 under respective conversion factors are:

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 3: Basis of presentation (continued)

Year	Indices	Conversion Factor
1995	487,575	3.4
1996	594,110	2.8
1997	659,403	2.5
1998	1,216,400	1.4
1999	1,661,481	1.0

The significant guidelines followed in restating these financial statements are:

- all amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 1999;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 1999;
- as described in Note 8, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 8, management as at 31 December 1998 reassessed the recoverability of property, plant and equipment, resulting in an impairment loss. The appraisal values and the 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 December 1999) 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 23,990 million for the year ended 31 December 1999 (1998: RR 70,767 million) because on average the Group had net monetary liabilities during the year. Since 31 December 1999, inflation has continued. As of 30 June 2000 the CPI was 1,820,022 (1988=100), representing inflation of 9.54 percent since 31 December 1999.

Reclassifications. For comparative purposes, certain prior year expenses have been reclassified. Management believes this revised classification to be a more appropriate presentation. This has not impacted the total of Total costs and other deductions.

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.

The 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 the common control and, accordingly, are accounted for in a manner similar to uniting of interests from the date of privatisation of each Group entity.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 4: Summary of significant accounting policies (continued)

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.

Other investments. Investments are carried at historical cost restated to the equivalent purchasing power of Russian rouble at 31 December 1999. Provision is made where, in the opinion of management, there is a permanent diminution in value below the carrying amount.

Foreign currency. Monetary assets and liabilities which are held by Group entities and denominated in foreign currencies at 31 December 1999 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 December 1999 was 27.00:1 (1998: 20.65:1). Material 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.

Dividends. Dividends are recognised only if they are declared on or prior to the balance sheet date. This is consistent with IAS 10 revised, “Events After the Balance Sheet Date.”

Property, plant and equipment. Property, plant and equipment as at 31 December 1999 is stated at depreciated replacement cost, based upon values determined by professional valuation at 31 December 1997, and adjusted for subsequent additions, disposals, depreciation and restated for the impact of inflation by applying relevant conversion factors from the appropriate date. As at 31 December 1998, management reassessed the recoverability of property, plant and equipment. This impairment loss has reduced 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, liabilities for social expenditures are accrued.

Note 4: Summary of significant accounting policies (continued)

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks. Cash equivalents comprise short-term investments that may be readily converted into cash. 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 a significant 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 such information is outweighed by the cost of preparation.

Mutual settlements, barter and non-cash settlements. A significant portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. Mutual settlements, barter and non-cash 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 “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. An allowance for doubtful debtors as determined by Group management was recorded to reduce the carrying value of accounts receivable to their estimated net realisable value.

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 consolidated 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 December 1999. 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.

Note 4: Summary of significant accounting policies (continued)

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.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that an obligation exists and the amounts can be reasonably estimated.

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 year. 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 year. 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 at 31 December 1999. Any gains or losses arising on the disposal of treasury shares are recorded direct to the statement of changes in shareholders' equity.

Early adoption of standards. International Accounting Standards issued as of 31 December 1999, with the exception of IAS 39 "Financial Instruments: Recognition and Measurement", have been reflected in the financial statements, as applicable to the Group.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

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:

Name	Ownership %	Voting %
Regional generation and distribution companies		
Centre		
Astrakhanenergo	48.7	48.7
Belgorodenergo	49.0	65.3
Ivenergo	49.7	56.6
Kalugaenergo	49.0	49.0
Kostromaenergo	49.0	65.3
Kurskenergo	49.4	59.8
Lipetskenergo	49.0	49.0
Mosenergo	47.5	47.5
Nizhnovenergo	49.0	62.3
Orelenergo	49.3	60.5
Ryazanenergo	49.0	49.0
Tambovenergo	49.0	56.0
Tulaenergo	49.0	49.0
Tverenergo	49.0	65.3
Vladimirenergo	49.0	49.0
Volgogradenergo	49.0	61.3
Vologdaenergo	49.0	49.0
Voronezhenergo	49.0	65.3
Yarenergo	47.4	64.3
North-West		
Arkhenergo	49.0	59.1
Bryanskenergo	49.0	65.2
Karelenergo	100.0	100.0
Kolenergo	48.8	65.0
Komienergo	48.0	48.2
Lenenergo	49.0	57.4
Novgorodenergo	49.0	62.9
Pskovenergo	49.0	49.0
Smolenskenergo	48.7	59.3
Yantarenergo	100.0	100.0
Middle Volga		
Chuvashenergo	100.0	100.0
Marienergo	64.4	70.1
Mordovenergo	50.7	50.7
Penzaenergo	49.0	60.2
Samaraenergo	49.5	56.7
Saratovenergo	49.8	64.6
Ulyanovskenergo	49.0	65.3
South		
Dagenergo	51.1	51.1
Ingushenergo	49.0	49.0
Kabbalkenergo	54.7	67.8
Kalmenergo	100.0	100.0
Karachaevo-Cherkesskenergo	100.0	100.0
Kubanenergo	49.0	49.0
Rostovenergo	48.4	62.8
Sevkavkazenergo	49.0	49.0
Stavropolenergo	54.7	71.4
Ural		
Chelyabenergo	49.0	58.1
Kirovenergo	48.2	64.0
Kurganenergo	49.0	53.8
Orenburgenergo	100.0	100.0
Permenergo	49.0	64.4
Sverdlovenergo	49.0	65.3
Tumenenergo	100.0	100.0
Udmurtenergo	49.0	55.4
Siberia		
Altaienergo	53.7	72.2
Buryatenergo	47.3	47.3
Chitaenergo	49.0	62.2
Khakasenergo	100.0	100.0
Omskenergo	49.0	60.4
Tomskenergo	49.0	57.1
East		
Amurenergo	38.6	45.2
Dalenergo	49.0	65.3
Khabarovskenergo	49.5	61.8
Kolymaenergo	100.0	100.0
Kamchatskenergo	49.0	59.2
Magadanenergo	49.0	64.4
Sakhalinenergo	49.0	49.0

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 5: Principal subsidiaries (continued)

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Hydrogenerating companies					
Bureyskaya GES	81.6	84.1	Sulakenergo	99.3	99.3
Kabbalk GES	76.4	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.1
Taimyrenergo	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zeiskaya GES	56.5	72.5
Sayano-Shushenskaya GES	78.9	82.8	Zelenchugskie GES	71.9	71.9
Thermal generating companies					
Berezovskaya GRES –1	100.0	100.0	Pechorskaya GRES	51.0	51.0
Cherepetskaya GRES	55.8	55.8	Permskaya GRES	100.0	100.0
Gusinoozerskaya GRES	100.0	100.0	Ryazanskaya GRES	100.0	100.0
Konakovskaya GRES	51.0	51.0	Stavropolskaya GRES	51.0	51.0
Kostromskaya GRES	51.0	51.0	Troitskaya GRES	100.0	100.0
Krasnoyarskaya GRES –2	100.0	100.0	North-West Station	53.5	60.5
Kuban GRES	79.8	99.9	ZAO Lutek	56.3	56.3
Nevinomysskaya GRES	100.0	100.0	Shekinskie PGU	90.8	98.8
Novocherkasskaya GRES	100.0	100.0	Kaliningradskaya TETS-2	85.8	85.8
Construction companies					
Cherkeigesstroi	100.0	100.0	Sevkavgidroenergostroi	100.0	100.0
Zeyagesstroi	100.0	100.0	Boguchangesstroi	55.6	60.0
Other					
Central Despatch Centre	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 within its subsidiaries. Such preference shares do not have any voting rights, unless their dividend is not paid. These voting rights exist until the preference dividend arrears are paid.

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 49.0 percent and 31.7 percent in Kuzbassenergo and Biskaya TETS respectively. These two entities have been placed in receivership as a consequence of bankruptcy proceedings. RAO UES no longer has control or significant influence over these three entities and, accordingly, they have been accounted for as Other investments and carried at cost.

RAO UES holds notional voting interests of 65.8 percent and 58.1 percent in Krasnoyarskenergo and Yakutskenergo, respectively. During the privatisation process of the industry, RAO UES ceded under binding agreement part of their voting rights to the respective local governments of these regions. As a consequence of this, RAO UES holds a reduced voting interest of 32.9 percent and 34.4 percent in Krasnoyarskenergo and Yakutskenergo, respectively. Both of these entities have been accounted as Investments in associates using the equity method of accounting.

RAO UES has not paid in full for its interest in Yakutskenergo. The Group has recognised a liability of RR 1,686 million (1998: RR 1,686 million) in respect of this obligation, 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 1999)

Note 5: Principal subsidiaries (continued)

During 1999, Pskovenergo, a subsidiary of UES, sold 72.1 percent of its voting shares in Pskovskaya GRES to Gorizontinvest, a company affiliated to OAO Gazprom, in consideration of veksels with a fair value RR 438 million. These veksels were subsequently used by Pskovenergo to settle its liability for gas supplies. As a result of this sale a loss of RR 106 million was charged to the statement of operations. UES retained 27.9 percent voting shares in this entity. Subsequent to this disposal Pskovskaya GRES has been accounted for as a cost investment in the consolidated financial statements for the year ended 31 December 1999.

During the 1999 the Group regained control over its subsidiary Boguchangesstroi. Previously the entity was recorded as a cost investment. From 27 September 1999 this entity has been consolidated into the Group at a fair value. As a consequence of regaining control over Boguchangesstroi, a surplus of RR 96 million, being the difference between the Group's share of the net assets and the cost of investment, was recorded within the statement of operations.

Sevkavgidroenergostroi, 100 percent owned subsidiary, was required by a regional court to give up 28.1 percent of the shares of Zelenchugskiye GES as a settlement for a legal suit from a creditor. The resultant loss of RR 254 million has been charged to the statement of operations.

During 1999 the Group formed two new companies from its participation in joint ventures for the construction of new power stations. These new Group entities are: Shekinskie PGU and Kaliningradskaya TETS-2. These new entities have been accounted for in a manner similar to a uniting of interests, as the underlying joint venture was under the control of the Group prior to the incorporation of these new legal entities.

Furthermore, during 1999 the ownership of a number of entities has changed. The most significant of which are described below. As a result of these ownership changes the total loss to the Group of RR 579 million has been charged totally to the statement of operations.

Name of enterprise	Ownership % as at 31 December 1999	Ownership% as at 31 December 1998
Amurenergo	38.6	45.4
Bureiskaya GES	81.5	90.0
Mordovenergo	50.7	49.0
Altayenergo	54.7	53.4

Subsequent to the year end the Group has reacquired some of the ownership lost in Amurenergo. As at the date of the preparation of these statements Group ownership is equal to 50.2 percent.

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"*** consists of RAO UES and CDC. As disclosed in Note 1 this segment maintains and operates the high voltage electricity transmission grid, three power stations and controls the wholesale energy market. RAO UES also participates in joint ventures with energos and other entities to construct new power stations, which 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 the wholesale energy market. Tariffs in the wholesale energy markets are set by the FEC;

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Note 6: Segment information (continued)

- ***"Hydro and thermal generating stations segment"*** consists of entities that sell electricity to energos through the wholesale energy market, tariffs are set by the FEC; and
- ***"Construction segment"*** consists of construction entities.

Year ended 31 December 1999	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	16,342	209,736	21,900	626	-	248,604
Inter-group revenues	(1,979)	(29,811)	(178)	(219)	-	(32,187)
Total revenues	14,363	179,925	21,722	407	-	216,417
Segment result	7,204	(24,319)	(5,975)	(1,497)	1,133	(23,454)
Share of income of associates	-	2,106	-	(14)	-	2,092
Monetary effects						18,138
Loss before taxation						(3,224)
Total tax charge						(20,236)
Net loss before minority interest						(23,460)
Minority interest: share of net loss						13,599
Net loss						(9,861)
Capital expenditures	3,111	23,985	4,550	206	2,006	33,858
Depreciation and amortisation	5,084	25,225	2,690	71	-	33,070
Impairment loss	-	-	-	-	-	-
Doubtful debtors expense	(1,374)	2,494	203	(8)	35	1,350
As at 31 December 1999						
Segment total assets	234,409	492,379	78,797	5,810	(134,083)	677,312
Associates	-	10,884	-	97	-	10, 981
Total assets	234,409	503,263	78,797	5,907	(134,083)	688,293
Segment liabilities	40,302	222,329	41,488	2,810	(30,032)	276,897

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 6: Segment information (continued)

Year ended 31 December 1998	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	24,992	358,497	44,170	1,516	-	429,175
Inter-group revenues	(18,085)	(4,247)	(35,429)	-	-	(57,761)
Total revenues	6,907	354,250	8,741	1,516	-	371,414
Segment result	(99,099)	(556,965)	(71,065)	(1,244)	(1,830)	(730,203)
Share of loss of associate	-	(31,356)	-	-	-	(31,356)
Monetary effects						54,721
Loss before taxation						(706,838)
Total tax benefit						53,872
Net loss before minority interest						(652,966)
Minority interest: share of net loss						209,946
Net loss						(443,020)
Capital expenditures	4,719	39,393	8,735	285	-	53,132
Depreciation and amortisation	13,128	53,745	6,595	132	-	73,600
Impairment loss	94,587	500,723	58,126	830	-	654,266
Doubtful debtors expense	148	19,676	4,636	22	-	24,482
As at 31 December 1998						
Segment total assets	240,322	516,669	99,107	4,010	(138,545)	721,563
Associates	-	9,352	-	112	-	9,464
Total assets	240,322	526,021	99,107	4,122	(138,545)	731,027
Segment liabilities	38,706	246,908	43,272	2,814	(35,391)	296,309

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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. Accordingly it is not practicable to split the assets of RAO UES on a geographical basis.

These assets generate revenues primarily within the geographical region where its assets are located.

	Revenues		Total assets		Capital expenditures	
	1999	1998	1999	1998	1999	1998
RAO UES segment	16,342	24,992	234,409	240,322	3,111	4,719
Centre	75,587	132,994	198,275	215,987	8,869	16,317
North-West	23,726	41,365	54,178	55,126	6,006	5,057
Urals	59,000	98,475	141,241	154,584	5,759	7,134
Siberia	17,157	30,380	54,509	51,567	1,628	2,586
Mid-Volga	19,110	35,560	41,950	44,818	1,583	2,926
East	20,839	35,803	57,003	63,035	2,232	10,099
South	16,843	29,606	40,811	44,133	2,664	4,294
	248,604	429,175	822,376	869,572	31,852	53,132
Consolidation adjustments	(32,187)	(57,761)	(134,083)	(138,545)	2,006	-
Total	216,417	371,414	688,293	731,027	33,858	53,132

Note 7: Related Parties

The Association of Electric Power Engineers – Integral Electric Power Complex (known as Corporation “EEK” – hereinafter referred to as EEK) is a non-profit organisation, made up of members, who are almost exclusively entities operating in the Russian power sector. RAO UES and its subsidiaries hold a majority of the voting power in EEK. In addition, a former Chairman of the Board of Directors of RAO UES is the President of EEK and is authorised to direct its activities. Additionally certain current and former members of the RAO UES management also hold management positions in the EEK Group.

EEK has not been consolidated because its charter documents do not permit funds to be transferred to its members either by way of dividend or on winding up. RAO UES' holding in EEK is included in 'Other Investments' and is not material.

During the year ended 31 December 1999, EEK was involved in financing, facilitating mutual and non-cash settlements, and investment activities with UES Group entities. The commission paid on these transactions was not material.

EEK also controls and has significant influence in a number of companies ("the EEK Group") which provide a wide range of services to the UES Group. The nature of these services, and the size of transactions with UES Group entities in 1999, include supplying coal (1999: RR 395 million; 1998: RR 2,393 million), insurance services (1999: RR 595 million; 1998: RR 643 million), discounting bills of exchange (1999: RR 3 million; 1998: RR 1,101 million), performing mutual settlements with the gas suppliers (1999: nil; 1998: RR 1,522 million) and other services (1999: nil; 1998: RR 130 million). A number of these transactions are not transacted on an arm's length basis. The balances outstanding due to the EEK Group from the UES Group were approximately RR 1,157 million and RR 2,206 million as at 31 December 1999 and 31 December 1998 respectively. The balance outstanding due to the UES Group from the EEK Group was approximately RR 14 million and RR 1,138 million as at 31 December 1999 and 31 December 1998, respectively.

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Note 7: Related Parties (continued)

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

	31 December 1999	31 December 1998
Electricity revenues	1,365	1,594
Purchased power	387	203
Transmission fee income	890	1,964
Rental fee income	49	79

Compensation paid to members of the management board 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. Additional fees, compensation and allowances may be paid to members of the management board. Compensation is approved by the chairman of the board of directors.

Compensation paid to members of the board of directors is in accordance with an internal regulation on the remuneration of the board of directors. No payments were made to the members of the board of directors in 1999.

Note 8: Property, plant and equipment

	Electricity and Heat Generation	Electricity Transmission	Electricity distribution	Heating networks	Construction in Progress	Other	Total
Appraised value / cost							
Opening balance as at 31 December 1998	372,842	125,129	393,987	68,205	177,891	119,691	1,257,745
Additions	1,307	15	2,165	160	25,790	1,571	31,008
Additions through acquisitions of subsidiaries	18		21	3	2,798	10	2,850
Transfers	16,615	1,589	8,693	3,096	(38,111)	8,118	-
Disposals	(3,241)	(105)	(2,963)	(727)	(9,059)	(3,196)	(19,291)
Disposals of subsidiaries	(1,164)		(69)	(25)	(634)	(437)	(2,329)
Closing balance as at 31 December 1999	386,377	126,628	401,834	70,712	158,675	125,757	1,269,983
Accumulated depreciation							
Opening balance as at 31 December 1998	(218,883)	(51,938)	(258,664)	(39,950)	(94,802)	(63,296)	(727,533)
Charge for 1999	(8,510)	(3,876)	(9,248)	(2,881)	-	(8,555)	(33,070)
Disposals	2,201	8	2,003	468	4,291	2,143	11,114
Transfers	(8,803)	(842)	(4,606)	(1,640)	20,192	(4,301)	-
Disposals of subsidiaries	652	-	39	14	349	295	1,349
Closing balance as at 31 December 1999	(233,343)	(56,648)	(270,476)	(43,989)	(69,970)	(73,714)	(748,140)
Net book value as at 31 December 1998	153,959	73,191	135,323	28,255	83,089	56,395	530,212
Net book value as at 31 December 1999	153,034	69,980	131,358	26,723	88,705	52,043	521,843

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 8: Property, plant and equipment (continued)

Management commissioned an independent third party appraiser, the RAO UES Valuation Consortium led by Ernst & Young (CIS) Limited, to perform a valuation of the Group's property, plant and equipment as at 31 December 1997. The basis of the valuation was depreciated replacement cost. The subsidiary Mosenergo had an independent third party appraiser perform a valuation on the property, plant and equipment as at 31 December 1995 and this has been updated annually for additions, disposals and depreciation for the years ended 31 December 1996 and 31 December 1997. For periods subsequent to 31 December 1997 the appraisal values have been restated for the impact of inflation together with adjustments for additions, disposals and depreciation.

The year ended 31 December 1997 was the first year that the Group prepared a consolidated balance sheet under IAS. The valuation performed by the consortium has been used as an initial valuation in accordance with IAS. The net revaluation adjustment arising from the RAR carrying value of the property, plant and equipment was recorded within retained earnings and other reserves as at 31 December 1997.

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into production, 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 of these projects, 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 have been settled through mutual settlement, barter and other non-cash means.

Non-cash transactions in respect of property, plant and equipment are:

	31 December 1999	31 December 1998
Non-cash acquisitions	29,182	47,189
Non-cash proceeds from the sale of property, plant and equipment	3,857	3,393

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

Impairment. As more fully described at Note 2, the continuing economic crisis in the Russian Federation has had a significant negative impact on the Group. Those effects include but are not limited to a substantial slowing of customer payments and significant levels of non-payment of debtor balances by customers. In addition, these effects are exacerbated by the tariff-setting practices currently utilised by the RECs, which consider only costs determined on a Russian statutory accounting basis. As a result of these practices, the tariffs do not consider the significantly higher costs under IAS resulting from doubtful debtors expense and depreciation expense.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 8: Property, plant and equipment (continued)

As a result of the above, management reassessed the recoverability of property, plant and equipment as at 31 December 1998. Value in use of cash generating units have been estimated through a review of estimated future discounted cash flows. Management consider that individual subsidiaries represent cash generating units. Real discount rates approximating to 27 percent reducing over time to 9 percent have been used to discount these future cash flows. Based upon this reassessment, management recorded an impairment loss of RR 654,266 million as at 31 December 1998 related to the IAS carrying value of the Group property, plant and equipment. It was not possible to determine the portion of the impairment loss recorded in 1998 that existed and should have been recorded at 31 December 1997, as required by IAS.

For the year ended 31 December 1999, management have assessed the adequacy of its existing impairment provision and concluded that the amount reflected in the 1998 financial statements is still appropriate. No further adjustment has been recorded. The cumulative impairment provision included within the accumulated depreciation balance as at 31 December 1999 is RR 643,988 million.

Management cannot predict with certainty the length or impact of the current economic crisis, 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 loss. In management's opinion, this loss represents the best estimate 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.

	1999		1998	
Enterprise name	**% Ownership**	**% Voting**	**% Ownership**	**% Voting**
Bashkirenergo	21.3	22.3	21.3	22.3
Krasnoyarskenergo	51.0	32.9	51.0	32.9
Yakutskenergo	49.0	34.4	49.0	34.4
Novosibirskenergo	14.2	16.9	14.2	16.9

	Bashkir-energo	Krasnayarsk-energo	Novosibirsk-energo	Yakutsk-energo	Other	Total
Carrying value as at 31 December 1997	6,554	14,931	2,542	14,591	113	38,731
Share of income/(loss) of associates	(5,660)	(10,563)	(1,637)	(13,496)	-	(31,356)
Share of associates tax benefit	1,073	604	211	198	-	2,086
Other	-	-	3	-	-	3
Carrying value as at 31 December 1998	1,967	4,972	1,119	1,293	113	9,464
Share of income/(loss) of associates	148	2,375	(70)	(347)	(14)	2,092
Share of associates tax charge	(272)	(271)	(27)	(10)	(3)	(583)
Other	4	-	3	-	1	8
Carrying value as at 31 December 1999	1,847	7,076	1,025	936	97	10,981

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Note 9: Investments in associates (continued)

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 to equivalent purchasing power of the Russian rouble as at 31 December 1999.

Note 10: Cash and cash equivalents

	31 December 1999	31 December 1998
Cash at bank and in hand	1,333	1,494
Foreign currency accounts	323	26
Restricted cash	-	71
	1,656	1,591

Note 11: Accounts receivable and prepayments

	31 December 1999	31 December 1998
Trade receivables (Net of allowance for doubtful debtors of RR 74,097 for 1999 and RR 98,893 for 1998)	62,488	84,865
Value added tax recoverable	19,784	24,585
Other receivables (Net of allowance for doubtful debtors of RR 3,362 for 1999 and RR 2,905 for 1998)	16,216	16,339
Advances to suppliers	9,922	7,855
Receivables from associates	2,403	4,043
Prepayments and accrued income	1,001	1,289
	111,814	138,976

Management has determined the allowances for doubtful accounts based on specific customer identification, industry payment trends and subsequent receipts and settlements. 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. In 1999, approximately 67% (1998: 86%) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Note 12: Inventories

	31 December 1999	31 December 1998
Fuel production stocks	3,837	5,587
Materials and supplies	19,676	21,973
Other inventories	2,860	8,354
	26,373	35,914

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 12: Inventories (continued)

The above inventory balances are recorded net of an obsolescence provision of RR 1,150 million for 1999 and RR 1,156 million for 1998.

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	31 December 1999	31 December 1998
Ordinary shares	41,041,753,984	89,726	89,726
Preference shares	2,075,149,384	4,666	4,666
		94,392	94,392

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 carry no voting rights except when dividends on preference shares have not been paid. 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. 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 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 current year net profit. For 1999, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 2,583 million (1998: RR 3,017 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.

Dividends declared in 2000 in respect of 1999 to holders of ordinary shares and preference shares were RR 0.0131 per ordinary share (1998: RR 0.0085 per ordinary share, RR 0.0062 per ordinary share uninflated) and RR 0.0367 per preference share (1998: RR 0.021 per preference share, RR 0.0152 per preference share uninflated). Preference dividends outstanding were RR 11 million as at 31 December 1999 (1998: RR 5 million).

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 December 1999 represent 395,528,447 (1998: 395,009,320) ordinary and 14,899,736 (1998: 12,813,884) preference shares purchased and held by the Group, at cost.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 13: Shareholders' equity (continued)

The Group periodically purchases and sells such treasury shares.

	Cost as at 31 December 1998	Purchases in the year	Disposals in the year	Cost as at 31 December 1999
Ordinary shares	391	35	(13)	413
Preference shares	31	1	-	32
	422	36	(13)	445

Note 14: Minority interests

	Year ended 31 December 1999	Year ended 31 December 1998
Opening balance	128,004	332,868
Share of net income/(loss)	(13,599)	(209,946)
Acquisitions (Note 5)	718	5,257
Dividends	(226)	(175)
Closing balance	114,897	128,004

Note 15: Deferred profits tax

	Year ended 31 December 1999	Year ended 31 December 1998
Deferred tax (expense)/benefit – origination and reversal of temporary differences	(18,954)	62,747
Deferred tax benefit – effect of reduction in tax rate	7,029	-
Deferred profit tax (charge)/benefit	(11,925)	62,747

Most members of the Group are subject to profits tax rates of 30 percent (before 1 April 1999: 35 percent) on taxable profits. Some 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 December 1999)

Note 15: Deferred profits tax (continued)

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

	Year ended 31 December 1999	Year ended 31 December 1998
Loss before taxation	3,224	706,838
Theoretical tax benefit at an average statutory tax rate of 30% (1998: 35%) thereon	967	247,393
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income which is exempt from taxation	2,268	3,098
Non-deductible expenses	(1,513)	(6,683)
Non-temporary elements of monetary gains / losses	(38,890)	(191,573)
Doubtful debtors expense	(289)	(8,568)
Tax interest and penalties	(6,487)	(9,057)
Temporary difference on statutory revaluation of tax base	(1,157)	(1,580)
Inflation effect on deferred tax balance at beginning of the year	13,181	44,806
Non-recognised deferred tax movements	9,036	(15,015)
Effect of reduction in tax rate	5,272	-
Other	(2,624)	(8,949)
Total tax benefit/(charge)	(20,236)	53,872

The non-temporary impact 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.

Differences between IAS and Russian statutory taxation regulation 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 30% (1998: 35%).

Deferred profits tax liability	31 December 1999	Deferred tax on changes in Group	Movement for the year	Change in tax rate	31 December 1998
Trade receivables	4,847	-	(2,768)	(1,269)	8,884
Property, plant and equipment	51,002	(1,064)	23,785	(4,714)	32,995
Accounts payable	(127)	-	116	41	(284)
Inventories	(250)	-	(1,436)	(198)	1,384
Other	4,593	-	(743)	(889)	6,225
	60,065	(1,064)	18,954	(7,029)	49,204

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 15: Deferred profits taxes (continued)

Deferred profits tax asset	31 December 1999	Deferred tax on changes in Group	Movement for the year	Change in tax rate	31 December 1998
Trade receivables	(598)	-	1,218	303	(2,119)
Property, plant and equipment	20,750	-	(5,468)	(4,370)	30,588
Accounts payable	204	-	22	(30)	212
Inventories	(69)	-	1,271	223	(1,563)
Other	331	-	(1,843)	(362)	2,536
	20,618	-	(4,800)	(4,236)	29,654
Less non-recognised deferred tax asset	(20,618)	-	4,800	4,236	(29,654)
	-	-	-	-	-

A deferred profits tax asset has not been recognised for the Group's unused profits tax losses either at the year ended 31 December 1999 or 1998.

Note 16: Non-current debt

	Currency	Interest rate	Due	31 December 1999	31 December 1998
Bank debt in Russian banks	RR	0% – 20%	2000 and thereafter	143	137
Bank debt in Russian banks	Hard currency	0% – 20%	2000 and thereafter	180	105
Bank debt in Russian banks	RR	21%-40%	2000 and thereafter	10	102
Bank debt in Russian banks	RR	> 40%	2000 and thereafter	394	697
					-
Eurobond	US Dollars	8.4%	2002	4,327	5,641
Bonds	RR*	5%	2002	982	-
Central government loans	RR	0% – 20%	2000 and thereafter	2,028	2,263
Central government loans	RR	21% – 40%	2000 and thereafter	523	649
Central government loans	RR	> 40%	2000 and thereafter	340	179
Regional government loans	RR	0% – 20%	2000 and thereafter	224	250
Regional government loans	RR	21% – 40%	2000 and thereafter	-	61
Foreign banks	US Dollars	0% – 20%	2000 and thereafter	2,468	2,382
Other long-term debt				868	1,325
Total non-current debt				12,487	13,791
Less: current portion of non-current debt				(5,976)	(6,448)
Total				6,511	7,343

* In December 1999 RAO UES issued 982,587 bonds at 5.0 percent coupon with a nominal value of 1,000 Russian roubles. These bonds were issued at a discount of 5.75 percent, equal to RR 56 million. This discount is recorded as a deferred interest expense on the balance sheet and is to be released to interest expense in the statement of operations evenly over the life of the bond. 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.

Maturity Table	31 December 1999	31 December 1998
Due for re-payment		
Between one and two years	117	1,329
Between two and five years	5,900	5,830
After 5 years	494	184
	6,511	7,343

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 16: Non-current debt (continued)

The majority of the Group's current and non-current debt is secured through guarantees, primarily on veksels given by the Group entities that obtained the loan. The majority of the above debt is obtained at a variable interest rate.

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

	Interest rate	31 December 1999	31 December 1998
Current debt	0-20%	3,136	1,325
Current debt	21-40%	366	903
Current debt	>40%	2,150	1,759
Current portion of non-current debt		5,976	6,448
		11,628	10,435

Note 18: Accounts payable and accrued charges

	31 December 1999	31 December 1998
Trade payables	94,268	127,703
Bills of exchange payable	3,494	4,599
Payables to associates	368	474
Dividends payable	762	1,146
Accrued liabilities and other creditors	18,114	18,876
	117,006	152,798

In 1999, approximately 71% (1998: 91%) of the Group’s settlements of accounts payable and accrued charges were settled via non-cash settlements.

Note 19: Taxes payable

Taxes payable consists of the following:

	31 December 1999	31 December 1998
Value added tax	27,595	28,677
Fines and interest	23,129	16,966
Turnover taxes	10,480	11,083
Employee taxes	5,877	6,264
Profits tax	4,474	6,230
Property tax	1,528	1,879
Other taxes	4,471	4,337
	77,554	75,436

Included within value added tax payable is RR 12,900 million as at 31 December 1999 and RR 18,849 million as at 31 December 1998 of value added tax that is only payable to the tax authorities when the underlying receivable balance is recovered.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 1999)

Note 19: Taxes payable (continued)

Included within turnover taxes payable is RR 3,952 million as at 31 December 1999 and RR 5,078 million as at 31 December 1998 of turnover taxes that are only payable to the tax authorities when the underlying receivable balance is recovered.

The tax deferrals included in the taxes above are payable upon settlement of the related trade receivable balances. Substantially all accrued taxes above, excluding the deferred amounts, incur interest in accordance with applicable legislation. Interest does not accrue on tax penalties and interest.

In 1999, approximately 62% (1998: 84%) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 20: Governmental assistance

During 1999 the Federal government of the Russian Federation and regional government gave financial assistance equal to RR 1,984 million (1998: RR 3,445 million) for certain entities in the Far East region. This assistance in respect of 1999 and 1998 has been credited to the statement of operations fully in the year.

Note 21: Loss per share

Loss per share is calculated by dividing the net loss attributable to shareholders after the deduction of the proposed dividend to Preference Shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

	Year ended 31 December 1999	Year ended 31 December 1998
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Adjusted for weighted average number of treasury shares (thousands)	(394,901)	(390,008)
Weighted average number of ordinary shares in issue (thousands)	40,646,853	40,651,746
Net loss	(9,861)	(443,020)
Dividend to preference shareholders	(76)	(44)
Net loss attributable to ordinary shareholders	(9,937)	(443,064)
Weighted average number of ordinary shares in issue (thousands)	40,646,853	40,651,746
Basic loss per share	(0.24)	(10.90)

Note 22: Commitments

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 2000 in excess of amounts contracted will be purchased through short term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

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

Note 22: Commitments (continued)

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 21,502 million at 31 December 1999, and RR 20,042 million at 31 December 1998.

Note 23: 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. Due to the capital intensive nature of the industry, Group entities are also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable. These matters could have material effects on the operations of the Group.

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 occurring 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. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

Industry changes. The industry is continuing to undergo significant restructuring and reform initiatives and the future direction and effects of reforms are unknown at this time. Potential reforms in tariff setting policies, settlements of outstanding debts by governmental entities, restructuring of operations of the wholesale electricity market and introduction of measures to create competition within the wholesale market could have significant effects on enterprises operating in the industry. Due to the uncertainty concerning the actual changes in the industry which are to be implemented, management is unable to estimate the effects of reforms or the resulting future impact on the financial position of the Group.

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 24: Financial Instruments

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 already recorded, except as a result of the uncertainty arising from the financial crisis in Russia.

Note 24: Financial Instruments (continued)

Foreign exchange risk. The Group primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Group's purchases are denominated in Russian roubles. The major concentration of foreign exchange risk is in relation to US Dollar dominated debts, 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 rouble denominated debt is reset when the underlying Central Bank re-financing rate changes. The Central Bank re-financing rate has fluctuated significantly during the year. The interest rate on the Eurobond of US $200 million is fixed at 8.4 percent. Assets are generally non-interest bearing.

Fair values. Management does not believe it is practicable to estimate the fair value of long-term investments, trade payables and long and short term debt. These financial instruments are not traded in the Russian financial market and an objective fair value is not, therefore, available. All other balances have been included at their fair value.

Note 25: Significant Post Balance Sheet Events

In March 2000 the Group regained control over the subsidiary Kuzbassenergo as a result of the cessation of bankruptcy proceedings against this entity. Kuzbassenergo is to be consolidated into the Group from March 2000. This entity has net assets equal to RR 9,487 mln as of 31 December 1999. This entity has been accounted for as a cost investment for the consolidated financial statements of the Group for the year ended 31 December 1999.

Subsequent to the year end the subsidiaries Rostovenergo (May 2000) and Samaraenergo (March 2000) issued three year maturity bonds with a nominal value of RR 1,078 mln and RR 1,000 mln, respectively. The bonds issued by Samaraenergo were issued with a discount of RR 130 mln.