RAO UES

PARENT COMPANY STAND-ALONE IAS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999

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 balance sheet of RAO UES (that is, RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") as of 31 December 1999 and the related statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements, set out at pages 1 through 28, are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 7, the Company recorded impairment losses for the year ended 31 December 1998 of RR 90,525 million related to property, plant and equipment. As also indicated in Note 7, 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 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 financial statements of the matter referred to in paragraph 3, the accompanying financial statements present fairly, in all material respects, the financial position of the Company (as a parent company on a stand-alone basis) as of 31 December 1999 and the results of its operations and its cash flows for the year then ended, in accordance with IAS.

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 Company being a going concern. For the year ended 31 December 1999, the Company incurred a net loss of RR 2,071 million (1998: RR 104,476 million). Furthermore, as disclosed in Note 2, the Company 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 Company 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 ("Parent company" stand-alone)

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	7	104,304	109,081
Investments	8	22,911	21,733
Other non-current assets	9	5,939	3,147
Total non-current assets		133,154	133,961
Current assets			
Cash and cash equivalents	10	164	216
Accounts receivable and prepayments	11	19,100	16,832
Inventories		413	377
Other current assets		400	296
Total current assets		20,077	17,721
Total assets		153,231	151,682
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	12		
Ordinary shares (nominal value RR 20,521 million)		89,726	89,726
Preference shares (nominal value RR 1,038 million)		4,666	4,666
Treasury shares	12	(341)	(341)
		94,051	94,051
Retained earnings and other reserves		23,640	26,031
Total shareholders' equity		117,691	120,082
Non-current liabilities			
Deferred profits tax liabilities	13	15,477	13,150
Non-current debt	14	1,020	1,220
Total non-current liabilities		16,497	14,370
Current liabilities			
Current debt and current portion of non-current debt	15	4,617	2,054
Accounts payable and accrued charges	16	6,431	7,803
Taxes payable	17	7,995	7,373
Total current liabilities		19,043	17,230
Total shareholders' equity and liabilities		153,231	151,682

Chairman of the Management Board — Chubais A. B.

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

9 October 2000

RAO UES ("Parent company" stand-alone)

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			
Transmission fees	4	11,387	19,165
Exported electricity		1,485	-
Imputed interest income	4	900	1,967
Heat and electricity		676	1,146
Rental income		471	579
Investment income		225	496
Other income		583	1,324
Total revenues		15,727	24,677
Operating Costs	18		
High voltage network operating costs		4,284	9,606
Rental costs		1,163	3,458
Repairs and maintenance		2,025	2,657
Heat and electricity generation costs		697	1,535
Purchased electricity		450	-
Taxes other than on income		1,066	1,557
Administrative and general		1,487	1,845
Doubtful debtors expense		(893)	346
Tax fines and penalties		(437)	(901)
Loss on the disposal of fixed assets		567	122
Other expenses		318	1,271
		10,727	21,496
Diminution in carrying value of investments	8	(23)	25,157
Impairment loss	7	-	90,525*
Total costs and other deductions		**10,704**	**137,178**
Profit/(Loss) from operations		**5,023**	**(112,501)**
Monetary loss		(1,385)	(2,349)
Foreign exchange loss		(305)	(2,162)
Tax interest		(851)	(1,154)
Interest expense		(664)	(750)
Total monetary effects		(3,205)	(6,415)
Profit/(Loss) before taxation		1,818	(118,916)
Current profits tax charge		(1,562)	(1,672)
Deferred profits tax (charge)/benefit		(2,327)	16,112
Total tax (charge)/benefit	13	**(3,889)**	**14,440**
Net loss		**(2,071)**	**(104,476)**
Loss per share – ordinary shares (in Russian roubles)	4, 19	(0.053)	(2.569)

* – not possible to determine amount of loss which applies to years prior to 1998

Chairman of the Management Board — Chubais A. B.

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

9 October 2000

RAO UES ("Parent company" stand-alone)
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 FLOWS FROM OPERATING ACTIVITIES:	4		
Net profit/(loss) before taxation		**1,818**	**(118,916)**
Adjustments to reconcile net loss before taxation to net cash provided by operations:			
Depreciation and amortisation		5,224	13,048
Impairment loss		-	90,525
Foreign exchange loss		305	2,252
Imputed interest income on receivables		(900)	(1,967)
Interest expense		664	750
Tax interest		(851)	(1,154)
Diminution in carrying value of investments		(23)	25,157
Doubtful debtors expense		(893)	346
Dividends receivable and received in kind		(225)	(496)
Monetary effects on non-operating balances		(1,183)	(3,183)
Adjustment for non-cash investing activities		(6,261)	(7,955)
Adjustment for non-cash financing activities		-	341
Other		474	799
Operating loss before working capital changes		**(1,851)**	**(453)**
Decrease in accounts receivables and prepayments, gross		174	3,717
(Increase)/Decrease in other current assets		(104)	92
(Increase)/Decrease in inventories		(36)	419
(Decrease)/Increase in accounts payable and accrued charges		(9)	1,892
Increase/(Decrease) in taxes payable other than profits tax		1,183	(3,495)
Profits tax paid/non-cash		(769)	(934)
Profits tax paid/cash		(502)	(769)
Net cash (used)/provided by operating activities		**(1,914)**	**469**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(271)	(107)
Purchase of investments		(46)	-
Dividends received		86	37
Net cash used in investing activities		**(231)**	**(70)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		4,972	2,838
Reductions of loan		(3,860)	(4,689)
Proceeds from issuance of non-current debt		1,078	1,202
Effect of inflation on financing activities		876	986
Interest paid		(711)	(500)
Dividends paid		(203)	(110)
Net cash provided/(used) in financing activities		**2,152**	**(273)**
Effect of inflation on cash and cash equivalents		**(59)**	**(85)**
Net (decrease)/increase in cash and cash equivalents		**(52)**	**41**
Cash and cash equivalents at the beginning of the year		**216**	**175**
Cash and cash equivalents at the end of the year	10	**164**	**216**

Chairman of the Management Board — Chubais A. B.

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

9 October 2000

RAO UES ("Parent company" stand-alone)
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 31 December 1997	89,726	4,666	(341)	131,047	225,098
Net loss	-	-	-	(104,476)	(104,476)
Dividends	-	-	-	(540)	(540)
At 31 December 1998	89,726	4,666	(341)	26,031	120,082

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 1999	89,726	4,666	(341)	26,031	120,082
Net loss	-	-	-	(2,071)	(2,071)
Dividends	-	-	-	(320)	(320)
At 31 December 1999	89,726	4,666	(341)	23,640	117,691

Chairman of the Management Board Chubais A. B.

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

9 October 2000

Note 1: The Company and its operations

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

Specifically, the following assets 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. The Company maintains this network and charges a transmission fee to users of the network;
>
> ***Generating stations:*** Thirteen generating stations were transferred to the Company, of these ten stations are leased to its investees. The remaining stations operate as electricity producers and sell electricity direct to the wholesale electricity market;
>
> ***Regional generation and distribution companies:*** The Company received ownership interest in 70 regional generation and distribution companies ("Energos"). These ownership interests range from 14.2% to 100%; and
>
> ***Other:*** In addition, a number of other utility-related enterprises and construction companies were transferred to RAO UES.

The Company is required to provide access to the high voltage network, maintain it and develop the unified electricity system of the Russian Federation. The Central Dispatch Centre ("CDC"), a 100% owned subsidiary of the Company, is sub-contracted by the Company to undertake the technical management and balancing of the high voltage network as well as operate the wholesale electricity market. The Company develops, maintains and replaces the high voltage network as needed and as resources are available. The construction of generation and distribution assets is undertaken primarily through joint construction projects between the Company and the Energos. In 1998 the Company established itself as the export agent for entities selling electricity through the wholesale electricity market. The Company receives a commission for these services. Furthermore, during 1999 the Company started to export electricity, purchasing this electricity from surplus producers.

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

At 31 December 1999 and at 31 December 1998, the number of employees of the Company was approximately 16,000.

The Company'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% of RAO UES, which represents 54,9% of the ordinary shares issued. As discussed in Note 12, only ordinary shares have voting rights. The Government of the Russian Federation directly affects the Company's operations through regulation by the Federal Energy Commission ("FEC") in respect of the transmission fee it may charge. Historically, the fee has been based on a "cost-plus" system, meaning the 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, decisions relating to the transmission fee 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 Company and its operations (continued)

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on the Energos (UES Group entities) to ensure connection for the supply of electricity and heating to customers in the Russian Federation. 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 the Company's investees, to discontinue the supply of electricity and heat to delinquent customers.

As described in Note 21, the government's economic, social and other policies could have material effects on the operations of the Company.

Note 2: Going concern

For the year ended 31 December 1999, the Company incurred a net loss of RR 2,071 million (1998: RR 104,476 million). The Company continues to experience difficulties settling its tax liabilities, paying trade creditors, and meeting debts as they fall due. In addition, three of the Company's investees are currently in receivership. Certain other investees are also currently defending claims made against them in Arbitration Courts.

The Company is affected by government policy through control of tariffs and other factors that directly impact its own operations and those of its principal investees, the Energos. In recent years the Regional Energy Commissions, that control the tariffs of the Energos, 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 the IAS basis of accounting.

In common with many Russian companies, the Company and its Energo investees experience significant levels of non-payment or slow payment for services, this has adverse impact on cash flow. Due to widespread non-payment by end consumers, the ability of the Company's investees (the Energos) to pay their transmission fees has suffered which, in turn, has impacted the Company's ability to meet its obligations.

Operating environment. 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 business operating within 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 Company's control. The Company'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 Company.

Management believes that the factors noted above will, among other effects, continue to affect the Company'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 Company will be able to continue as a going concern for the foreseeable future. The Company's operations and those of its Energo investees are of strategic importance to the Russian economy. Management has taken steps which have improved cash collections, as has its Energo investees. 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 from prior years. Subsequent to the year end improvements in tariff rates have been obtained by both the Company and its Energo investees. 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 also discussing potential new sources of finance. The eventual outcome of these measures is uncertain.

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

Note 2: Going concern (continued)

The Company's financial statements have been presented in accordance with accounting policies based on the Company being a going concern. The going concern basis contemplates the realisation 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 Company be unable to continue as a going concern.

Note 3: Basis of presentation

Except as indicated below and in Note 7, the financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS"). That is, the financial statements are those of RAO UES as a "parent company" on a stand-alone basis and, as such, subsidiaries and associates are presented as investments in the financial statements. Consolidated financial statements for the RAO UES Group are currently being produced separately for the year ended 31 December 1999 and include the relevant financial information regarding RAO UES and its subsidiaries and associates.

The Company maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention except for revaluations of property, plant and equipment (see Note 7), with adjustments and reclassifications for the purpose of fair presentation in accordance with IAS as issued by the International Accounting Standards Committee.

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

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

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics (Goscomstat), and from indices obtained from other published sources for years prior to 1992. The index used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 31 December 1999 under respective conversion factors are:

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

Note 3: Basis of presentation (continued)

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 7, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 7, 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 Company's net monetary position is included in the statement of operations as a net monetary loss.

The statement of operations includes a net monetary loss of RR 1,385 million for the year ended 31 December 1999 (1998: RR 2,349 million) because, on average the Company had net monetary assets 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.

Note 4: Summary of significant accounting policies

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 Company.

Investments. Investments in subsidiaries, associates and other long-term investments are carried at historical cost restated to the equivalent purchasing power of the 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.

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. 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, the land on which the Company carries out its activities is the property of the state and, therefore, is not included in the balance sheet.

(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)

Property, plant and equipment is depreciated on a straight-line basis over its remaining useful life. The average remaining useful life as at 31 December 1999, weighted by the closing net book value of these assets, is shown in the table below.

Type of facility	Years
Electricity transmission	16
Electricity generation	15
Other	9

Depreciation on additions in the year is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

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

Social assets are excluded from the financial statements as they are not expected to result in future economic benefits to the Company. However, liabilities for social expenditures are accrued.

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

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

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 Company 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 cash flow statement 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.

Accounts receivable and prepayments. Accounts receivable from entities that the Company controls or has significant influence over, are considered by management to be fully recoverable. However, to reflect the timing of future settlements the balances have been discounted to their fair value using an imputed rate of interest determined by management.

Note 4: Summary of significant accounting policies (continued)

Accounts receivable with other entities are not discounted. The impact of the timing of future settlements is not considered material. An allowance for doubtful debtors, as determined by management, is recorded to reduce the carrying value of these accounts receivable to their estimated net realisable value. All accounts receivable include value added taxes which are payable to tax authorities upon collection of such receivables.

Value added tax on purchases and sales. Value added tax at 20 percent is applied to the majority of purchases. Elements of the fee charged for transmission services are not subject to value added tax. As a consequence the effective value added tax rate is less than 20 percent. The effective value added tax rate for the year ended 31 December 1999 was 15 percent (1998: 13 percent). Value added tax at 20 percent is applied to other non-transmission sales, with the exeption of export amounts received from countries outside of the CIS.

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

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

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 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 the balance sheet, that are expected to be settled by mutual settlements, barter or non-cash settlements, reflect management's estimate of the value to be received or given up in non-cash settlements.

Pension and post-employment benefits. The Company's mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

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

Note 4: Summary of significant accounting policies (continued)

Revenue Recognition. Revenue is recognised for IAS financial statement purposes on the accrual basis. Transmission fee revenue is based upon management's estimate of the fair value of such revenue, given the expected timing of future receipt of payments. The difference between the nominal amount and the fair value is recognised as imputed interest income on a time proportion basis up to the date of settlement. Billings for transmission fees are based upon tariffs authorised and approved by the Federal Energy Commission on an annual basis. Revenue figures are presented exclusive of value added taxes.

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, respectively, 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.

Note 5: Segmental information

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

- ***"Transmission"*** – this segment owns, constructs, maintains and operates the high voltage electricity transmission network.
- ***"Long-term investments"*** – this segment comprises the Company's long-term investments including its investment in the generation and distribution companies that comprise the RAO UES Group. These subsidiary and associated investees are described in Note 6.
- ***"Purchase and sale of electricity"*** – the Company during 1999 commenced a new activity involving the purchase and subsequent sale of electricity. This electricity is purchased from Russian electricity generators, of which some are related parties (as discussed in Note 6). All electricity purchased is exported to countries including the CIS.
- ***"Generation and leasing"*** – the Company owns thirteen power stations. Ten of these power stations are leased under operating leases to investees and the remaining three power stations are operated as electricity producers and sell directly to the wholesale electricity market. The Company also participates in joint ventures with Energos and other entities to construct new power stations.

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

Note 5: Segmental information (continued)

Year ended 31 December 1999	**Transmission**	**Long term investments**	**Purchase and sale of electricity**	**Generation and leasing**	**Total**
Revenues	12,087	225	1,485	1,930	15,727
Segment result	5,769	222	1,002	(483)	6,510
Administrative and general costs					(1,487)
Monetary effects					(3,205)
Profit before taxation					1,818
Profits tax charge					(3,889)
Net loss					(2,071)
Capital expenditure	1,151	-	-	643	1,794
Depreciation and amortisation	3,774	-	-	1,450	5,224
Impairment loss	-	(23)	-	-	(23)
Doubtful debtors expense	(893)	-	-	-	(893)
Other non-cash expenses	-	-	-	(95)	(95)
As at 31 December 1999					
Segment total assets	102,349	28,994	689	21,199	153,231
Segment liabilities	6,449	1,802	245	2,658	11,154
Unallocated liabilities					24,386
Total liabilities					35,540

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

Note 5: Segmental information (continued)

Year ended 31 December 1998	**Transmission**	**Long term investments**	**Purchase and sale of electricity**	**Generation and leasing**	**Total**
Revenues	21,020	496	-	3,161	24,677
Segment result	(46,571)	(24,689)	-	(39,396)	(110,656)
Administrative and general costs					(1,845)
Monetary effects					(6,415)
Loss before taxation					(118,916)
Profits tax benefit					14,440
Net loss					(104,476)
Capital expenditure	1,966	-	-	840	2,806
Depreciation and amortisation	8,962	-	-	4,086	13,048
Impairment loss	54,024	25,157	-	36,501	115,682
Doubtful debtors expense	346	-	-	-	346
Other non-cash expenses	523	-	-	231	754
As at 31 December 1998					
Segment total assets	107,075	25,038	-	19,569	151,682
Segment liabilities	7,650	1,844	-	2,453	11,947
Unallocated liabilities					19,653
Total liabilities					31,600

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

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

Note 5: Segmental information (continued)

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

	Revenues		Total assets		Capital expenditure	
	1999	1998	1999	1998	1999	1998
RAO UES	2,777	1,224	115,633	120,453	40	529
Siberia	2,514	4,994	11,412	10,826	411	884
Urals	3,215	5,821	8,987	9,695	398	332
Centre	3,791	6,599	6,252	6,372	295	204
North-West	1,321	2,321	3,736	2,577	288	410
East	353	662	1,917	613	48	96
Mid-Volga	960	1,732	1,143	596	58	38
South	796	1,324	4,151	550	256	313
Total	15,727	24,677	153,231	151,682	1,794	2,806

Note 6: Related Parties

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

PRINCIPAL SUBSIDIARY INVESTEES

Regional generation and distribution companies

Centre

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

South

Dagenergo
Ingushenergo
Kabbalkenergo
Kalmenergo
Karachaevo-Cherkesskenergo
Kubanenergo
Rostovenergo
Sevkavkazenergo
Stavropolenergo

Ural

Chelyabenergo
Kirovenergo
Kurganenergo
Orenburgenergo
Permenergo
Sverdlovenergo
Tumenenergo
Udmurtenergo

Middle Volga

Chuvashenergo
Marienergo
Mordovenergo
Penzaenergo
Samaraenergo
Saratovenergo
Ulyanovskenergo

East

Amurenergo
Dalenergo
Khabarovskenergo
Kolymaenergo
Kamchatskenergo
Magadanenergo
Sakhalinenergo

Note 6: Related Parties (continued)

North-West

Arkhenergo
Bryanskenergo
Karelenergo
Kolenergo
Komienergo
Lenenergo
Novgorodenergo
Pskovenergo
Smolenskenergo
Yantarenergo

Siberia

Altaienergo
Buryatenergo
Chitaenergo
Khakasenergo
Omskenergo
Tomskenergo

Hydrogenerating companies

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

Thermal generating companies

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

Construction companies

Cherkeigesstroi
Boguchangesstroi
Sevkavgidroenergostroi
Zeyagesstroi

Other

Central Dispatch Centre

ASSOCIATE INVESTEES

Bashkirenergo
Krasnayarskenergo
Yakutskenergo
Novosibirskenergo

Note 6: Related Parties (continued)

Significant balances with subsidiary and associated related parties

Subsidiaries and associates, as listed above, are carried as long-term investments at cost as disclosed in Note 8. Amounts due from these related parties are disclosed as trade receivables in Note 11. These related parties provided construction services to the Company RR 540 million (1998: RR 1 219 million) during the year. Outstanding construction liabilities with these related parties amounted to RR 503 million and RR 990 million as at 31 December 1999 and 31 December 1998, respectively. Outstanding payables in respect to purchased electricity amount to RR 185 million (1998: Nil).

Significant transactions with subsidiary and associated related parties
As shown in the Statement of Operations from year ended 31 December 1999, substantially all revenue, with the exception of exported electricity, is received from the above subsidiary and associate related parties, as they are the main customer in respect to transmission fees. Substantially all exported electricity is purchased from subsidiary and related parties. For the year ended 31 December 1999 RR 361 million (1998: Nil) of electricity was purchased from subsidiary and associated related parties at prices set for wholesale electricity market by FEC. In addition, RR 239 million (1998: RR 356 million) and RR 290 million (1998: RR 591 million) million included within high voltage network operating costs and repairs and maintenance, respectively, arose through transactions with these related parties, on normal commercial terms.

Shares of RAO UES held by subsidiaries

As at 31 December 1999 44,670,648 (1998: 43,746,473) ordinary and 13,964,734 (1998: 11,878,882) preference shares of the Company are held by subsidiaries.

Other 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. RAO UES' holding in EEK is included in 'Other Investments' and is not material. The primary service provided by EEK to the Company is the use of its promissory notes to facilitate the mutual settlement of the Company's outstanding debtors with third parties, as described in Note 4. During 1999 RR 410 million (1998: RR 424 million) of promissory notes were settled. The charge in respect of these services for 1999 is equal to RR 7 million (1998: RR 22 million). As at 31 December 1999 the Company did not hold promissory notes of EEK (1998: RR 410 million included in other receivables) and had outstanding liabilities to EEK of RR 227 million included in other creditors (1998: RR 721 million). Certain current and former members of the RAO UES management also hold management positions in the EEK Group.

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

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.

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

Note 7: Property, plant and equipment

	Electricity Generation	Electricity Transmission	Construction in Progress	Other	Total
Appraised value / Cost					
Opening depreciated replacement cost as at 31 December 1997	36,532	116,084	79,016	4,173	235,805
Additions	1	3	2,998	238	3,240
Transfers	1,602	9,082	(12,294)	1,610	-
Disposals	-	(205)	(783)	(89)	(1,077)
Transfers to investments	(4,744)	-	(20,570)	-	(25,314)
Balance as at 31 December 1998	33,391	124,964	48,367	5,932	212,654
Additions	45	14	1,989	289	2,337
Transfers from other non-current assets	20	-	396	141	557
Transfers	445	1,589	(2,433)	399	-
Disposals	(48)	(103)	(535)	(251)	(937)
Transfers to investments	-	-	(354)	-	(354)
Transfers to other non-current assets	-	-	(1,724)	(51)	(1,775)
Balance as at 31 December 1999	33,853	126,464	45,706	6,459	212,482
Accumulated depreciation					
Charge for the year 1998	(3,596)	(8,917)	-	(535)	(13,048)
Impairment loss for 1998	(26,221)	(43,020)	(21,284)	-	(90,525)
Balance as at 31 December 1998	(29,817)	(51,937)	(21,284)	(535)	(103,573)
Charge for the year 1999	(169)	(3,877)	-	(1,178)	(5,224)
Disposals	26	30	535	28	619
Balance as at 31 December 1999	(29,960)	(55,784)	(20,749)	(1,685)	(108,178)
Net book value as at 31 December 1998	3,574	73,027	27,083	5,397	109,081
Net book value as at 31 December 1999	3,893	70,680	24,957	4,774	104,304

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

Note 7: Property, plant and equipment (continued)

The Company leases ten power stations to its Energo investees under operating leases. The carrying value of leased assets included in the above table is shown below.

	31 December 1999	31 December 1998
Appraised value / Cost	31,602	31,291
Accumulated depreciation	(4,607)	(3,446)
Impairment charge	(23,789)	(23,789)
Net book value	3,206	4,056

Future rental income due under the non-cancellable operating leases shown in the table below is based on the 2000 rental income which has not been adjusted for the effects of inflation. This income may change as a result of future agreements between the Company and its customers.

Rental income due:	31 December 1999	31 December 1998
Less than 1 year	637	903
Two to five years	751	1,892
Total	1,388	2,795

Management commissioned an independent third party appraiser, the RAO UES Valuation Consortium led by Ernst & Young (CIS) Limited, to perform a valuation of the Company's property, plant and equipment as at 31 December 1997. The basis of the valuation was depreciated replacement cost. The appraisal values have been restated for the impact of inflation and the 31 December 1999 amounts have been determined based on adjustments for additions, disposals and depreciation.

Construction in progress represents the carrying value of property, plant and equipment that has not yet been put into production, primarily representing generating stations and high voltage network under construction. Many of these construction projects are joint ventures between the Company and Energos or other third parties, each party contributing cash and assets to the venture. The Company has included its share of the full carrying value of each project in construction in progress. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the venture. During 1999 RR 354 million (1998: RR 25,314 million) was transferred to investments following the completion and incorporation of certain construction projects.

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

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

Additions to operational fixed assets principally comprise the transfer of completed projects from construction in progress. Additions to construction in progress principally comprise work completed. Approximately 91% (1998: 87%) of the additions to construction in progress have been settled through mutual settlement, barter and other non-cash means, 9% (1998: 3%, remaining 10% represents an increase in liabilities to constructors) settled through cash means.

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

Note 7: Property, plant and equipment (continued)

Impairment. As more fully described at Note 2, the continuing economic crisis in the Russian Federation has had a significant negative impact on the Company. Those effects include but are not limited to substantial reduction in the settlement of the Company's receivables. In addition, these effects are exacerbated by the tariff-setting practices that impact investees (the Company's customers) and those that directly impact the Company. Tariff setters 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 depreciation expense, doubtful debtors expense and the financing of uncollected receivables.

As a result of the above, management has 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 the high voltage network, three generating stations, ten leased stations represent cash generating units. 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 90,525 million as at 31 December 1998 related to the IAS carrying value of the Company property, plant and equipment. It was not possible to determine the portion of the 1998 impairment loss, which existed and should have been recorded at 31 December 1997, as required by IAS. For the year ended 31 December 1999, management reviewed the assumptions used in the value in use model for the prior year. Management consider that the assumptions applied in the value in use calculation are still appropriate and that there is no requirement to either incur additional or reverse any of the prior year's impairment loss.

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 the impact of impairment as a result of the current economic conditions in Russia.

Note 8: Investments

	Subsidiaries and associates	Other investments	Total
Carrying value as at 31 December 1997	17,141	3,461	20,602
Additions	242	-	242
Transfer from property, plant and equipment	25,314	-	25,314
Transfers from other long term assets	732	-	732
Permanent diminution in carrying value	(23,623)	(1,534)	(25,157)
Carrying value as at 31 December 1998	19,806	1,927	21,733
Carrying value as at 01 January 1999	19,806	1,927	21,733
Additions	67	6	73
Transfer from property, plant and equipment	354	-	354
Transfers from other long term assets	726	2	728
Permanent diminution in carrying value	(648)	671	23
Transfers	1,833	(1,833)	-
Carrying value as at 31 December 1999	22,138	773	22,911

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

Note 8: Investments (continued)

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

In 1999 and 1998 the Company created several new generation entities through the incorporation of some of its property, plant and equipment balances. The carrying value of these assets transferred in return for equity (1998: RR 25,314 million; 1999: RR 354 million) is included as the cost of the investment in these entities as at 31 December 1999.

Additions to subsidiary and associated investments of RR 46 million and RR 27 million were financed through cash and non-cash transactions respectively. The transfer from other long-term investments of RR 728 million (1998: RR 732 million) is from equity prepayments as described in Note 9.

Other investments
Other investments primarily comprise investments in entities that are either not controlled by the Company or are not material. The investments are presented net of management's estimate of a permanent diminution in value.

The carrying value of investments have been adjusted for the impairment determined by management as at 31 December 1999. In determining the impairment, indicators of the value of investments have been obtained by reference to the investee's net assets. The resulting release of permanent diminution of RR 23 million has been credited to the statement of operations (1998: RR 25,157 million has been provided).

Note 9: Other non-current assets

	31 December 1999	31 December 1998
Advances for equity in subsidiaries and associates	5,866	2,568
Other	73	579
	5,939	3,147

Advances for equity in subsidiaries and associates
The Company has agreements in place with some of the Energos under which the Company advances amounts for future issues of equity in the Energo. The number of shares to be issued will be determined at a future point in time. The equity advances are utilised by the Energos to fund the construction of generation and distribution fixed assets. In 1999 the Company received equity of RR 728 million (1998: RR 732 million) from these advances, in terms equivalent to the purchasing power of the Russian rouble at 31 December 1999. Additions to advances for equity in 1999 amounted to RR 3,768 million (1998: RR 1,567 million) which were financed through non-cash transactions.

(in millions of Russian roubles expressed in terms of the 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	164	105
Cash equivalents	-	111
	164	216

Note 11: Accounts receivable and prepayments

	31 December 1999	31 December 1998
Trade receivables	12,381	13,733
Other receivables (Net of allowance for doubtful accounts of RR 1,668 million for 1999 and RR 3,286 million for 1998)	4,922	2,013
Advances to suppliers	1,327	822
Prepayments and accrued income	315	137
Value added tax recoverable	155	127
	19,100	16,832

Trade receivables are due from entities that the Company controls or has significant influence with and include amounts due for transmission fees and leasing of power stations. These receivables have been discounted to their fair value, at the balance sheet date, to reflect the estimated future timing of settlements and are shown net of unearned imputed interest of RR 2,469 million (1998: RR 3,939 million). Management considers the trade receivables as fully recoverable balances. Trade receivables are contractually receivable as at the year end but due to the estimated future timing of settlements RR 392 million (1998: RR 3,131 million) is expected to be recovered within one to two years and RR 1,192 million (1998: RR 343 million) within two to five years, as measured at fair value.

Other receivable and prepayment balances are based on the estimated net realisable amount, hence the outstanding other receivables are shown net of provisions. Management believes that the Company will be able to realise the net other receivable amount through direct collections and other non-cash settlements. In 1999 approximately 68% (1998: 70%) of the settlements of the Company's accounts receivable and prepayments were made via non-cash settlements.

Note 12: 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 shares is 47,509,289,488, with a nominal value per share of 0.5 Russian roubles. All authorised preference shares have been issued. The value of the share capital is stated in terms of the purchasing power of the Russian rouble at the balance sheet date.

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

Note 12: Shareholders' equity (continued)

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 Company are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the current year net profit. For 1999, the statutory profit for the 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.

A dividend was declared in 2000 in respect of 1999 to holders of ordinary shares and preference shares of 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 and as at 31 December 1998 represent 351,857,799 ordinary and 935,002 preference shares purchased and held by the Company, at cost.

	31 December 1999	31 December 1998
Ordinary shares	337	337
Preference shares	4	4
	341	341

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

Note 13: Profits tax

	Year ended 31 December 1999	Year ended 31 December 1998
Deferred tax (expense)/benefit – origination and reversal of temporary differences	(4,206)	16,112
Deferred tax benefit – effect of reduction in tax rate	1,879	-
Deferred profit tax (charge)/benefit	(2,327)	16,112

The Company is comprised of several separate tax paying subdivisions each of which are subject to profit tax rates of 30% (before 1 April 1999: 35%) on taxable profits computed in accordance with the Russian tax legislation. 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
(Profit)/Loss before taxation	(1,818)	118,916
Theoretical tax (charge)/benefit at a statutory rate of 30 percent (1998: 35 percent) thereon	(545)	41,622
Tax effect of items which are not deductable or assessable for taxation purposes:		
Income that is not assessable for profits tax purposes	810	702
Expenses non-deductible for profits tax purposes	(777)	(1,401)
Non-temporary elements of monetary gains / losses	(9,069)	(45,478)
Inflation effect on deferred tax balance at beginning of year	3,523	13,399
Effect of reduction on tax rate	1,879	-
Release of prior year deferred profit tax liability resulting from reorganisation of certain assets (see below)	290	5,596
Total tax (charge)/benefit	(3,889)	14,440

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 (primarily deferred tax and equity).

Difference between IAS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 30% (1998: 35%).

During 1999 and 1998 the Company incorporated one of its subdivisions and a number of construction projects into separate legal entities. As part of the consideration for its investment in these new legal entities the Company contributed fixed assets. These fixed assets had an associated deferred profit tax liability as at 1 January 1999. On disposal of the fixed assets as part payment for the equity in the new legal entities the associated deferred profit tax liability became a non-temporary difference since the Company does not intend to sell its investment in these entities. Consequently, a release of RR 290 million (1998: RR 5,596 million) has been recognised in the deferred profit taxation benefit in 1999.

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

Note 13: Profits tax (continued)

Differences between IAS and Russian taxation and reporting regulations give rise to certain temporary differences between the financial statement and tax bases of assets and liabilities. The cumulative effect of such differences is as follows:

Deferred profits tax liability	31 December 1999	Movement for the year	Change in tax rate	31 December 1998
Trade receivables	(1,418)	706	354	(2,478)
Property, plant and equipment	(14,216)	(4,987)	1,538	(10,767)
Other	-	76	13	(89)
	(15,634)	(4,205)	1,905	(13,334)

Deferred profits tax asset	31 December 1999	Movement for the year	Change in tax rate	31 December 1998
Accounts payable	126	26	(17)	117
Other	31	(27)	(9)	67
	157	(1)	(26)	184
Net deferred profit tax liability	(15,477)	(4,206)	1,879	(13,150)

A net deferred profits tax liability of RR 4,793 million (1998: RR 4,550 million) would crystallise on the disposal of long term investments. However, the Company is able to control the timing of the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. Consequently, in accordance with IAS 12 (revised 1996), the net deferred profits tax liability has not been recognised.

Note 14: Non-current debt

	Currency	Interest rate	Due	31 December 1999	31 December 1998
Bonds	RR*	5%	2002	982	-
Bank debt	US$	20%	2000	1,550	2,153
Bank debt	US$	7%	2000 onwards	67	37
				2,599	2,190
Less: current portion of non-current debt				(1,579)	(970)
Total				1,020	1,220

Maturity Table	31 December 1999	31 December 1998
Due for re-payment		
Between one and two years	38	1,202
Between two and five years	982	18
	1,020	1,220

*See below description of linkage to US$ exchange rate

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

Note 14: Non-current debt (continued)

In December 1999 the Company issued 982,587 bonds at 5.0 percent with a nominal value of 1,000 Russian roubles. These bonds were issued at a discount of 5.75 percent, equal to RR 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.

Interest is payable on the 365th, 731st and 1096th day from the bond placement commencement date. These bonds mature 3 years from their issue date, at nominal value. For both interest payments and the redemption of these bonds the Russian rouble amount is adjusted to reflect any currency movements between the Russian rouble and the US$ from the date of issuance of the bonds, December 1999.

All the above debt is unsecured and the majority of it is obtained at a fixed interest rate. It is not practicable to measure the fair value of the above debt.

Note 15: Current debt and current portion of non-current debt

	Currency	Interest rate	31 December 1999	31 December 1998
Bank debt	RR	38%-65%	2,614	728
Bank debt	USD	17%-20%	181	-
Bank debt	RR	7% - 11%	243	356
Current portion of non-current debt			1,579	970
			4,617	2,054

Of the above debt RR 3,038 million (1998: RR 356 million) is secured against specific trade receivables from Group companies. The security is equal to RR 4,439 million (1998: RR 356 million) and includes amounts in respect of future interest. The remaining debt of RR 1,579 million (1998: RR 1,698 million) is unsecured. The debt is obtained at a variable interest rate and it is not practicable to measure the fair value of the above debt.

Note 16: Accounts payable and accrued charges

	31 December 1999	31 December 1998
Construction payables	2,312	3,826
Trade payables	451	499
Bills of exchange payable	30	41
Dividends payable	188	142
Accrued liabilities and other creditors	3,450	3,295
	6,431	7,803

The above payables represent the fair value of the underlying obligation. The Company has not paid in full for its interest in Yakutskenergo. The Company has recognised a liability of RR 1,686 million (1998: RR 1,686 million) in respect of this, which is the estimated fair value of consideration to be paid and is included within accrued liabilities and other creditors.

In 1999, approximately 86% (1998: 93%) of the Company's settlements of accounts payable and accrued charges were settled via non-cash settlements.

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

Note 17: Taxes payable

Taxes payable consists of the following:

	31 December 1999	31 December 1998
Value added tax	3,284	2,722
Fines and interest	2,249	2,091
Turnover taxes	1,267	1,341
Profits tax	663	549
Property tax	158	186
Employee taxes	137	131
Other taxes	237	353
	7,995	7,373

Included within value added tax payable is RR 1,643 million (1998: RR 1,761 million) of value added tax that is only payable to the tax authorities when the underlying receivable balance is recovered.

Included within turnover taxes payable is RR 421 million (1998: RR 463 million) of turnover taxes that are only payable to the tax authorities when the underlying receivable balance is recovered.

In 1999, approximately 48% (1998: 50%) of the Company's settlements of taxes payable were settled via non-cash settlements.

Note 18: Operating costs

Included within operating costs is depreciation of RR 5,224 million (1998: RR 13,048 million) and gross staff costs of RR 1,756 million (1998: RR 2,032 million), including approximately RR 476 million (1998: RR 570 million) of employment and related payroll taxes.

Note 19: Loss per share

Loss per share has been calculated by dividing the net loss for the year attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, respectively, outstanding during the year. The net loss attributable to ordinary shareholders is reconciled to the net loss in the year as shown in the table below.

	Year ended 31 December 1999
Net loss	(2,071)
1999 dividend to preferred shareholders	(76)
Net loss attributable to ordinary shareholders	(2,147)

	Year ended 31 December 1998
Net loss	(104,476)
1998 dividend to preferred shareholders	(44)
Net loss attributable to ordinary shareholders	(104,520)

Note 19: Loss per share (continued)

There were 40.7 billion weighted average ordinary shares outstanding for the years ended 31 December 1999 and 31 December 1998. There were 2.1 billion weighted average preference shares outstanding for the year ended 31 December 1999 and 31 December 1998.

The basic loss per share above is for RAO UES as a parent company on a stand-alone basis. The loss per share for the RAO UES Group is disclosed in the 1999 RAO UES Group consolidated financial statements.

Note 20: Commitments

Social commitments. The Company contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates. The charge in respect to these expenditures in 1999 were equal to RR 11 million (1998: RR 130 million).

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 2,186 million at 31 December 1999 (1998: RR 5,336 million).

Note 21: Contingencies

Political environment. The operations and earnings of the Company continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia. Due to the capital intensive nature of the industry, the Company is 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 Company.

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

Taxation. Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. 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 electricity 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 Company.

Note 21: Contingencies (continued)

Environmental matters. The Company and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying balance sheet.

Note 22: Financial Instruments

Credit risk. Financial assets which potentially subject the Company 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 Company. The timing of settlements could be affected by economic factors beyond management's control, including the uncertainty arising from the recent financial crisis in Russia.

Foreign exchange risk. The Company primarily operates within the Russian Federation. The majority of its purchases are denominated in Russian roubles. Since revenues are primarily denominated in Russian roubles, the Company is exposed to foreign exchange risk which is primarily concentrated in long-term loans of US $67 million and in the bond issued in December 1999 (as discussed in Note 14). In accordance with the Company's accounting policies these loans have been translated into RR at the exchange rate prevailing at the balance sheet date.

Interest rate risk. As discussed in Note 15 the interest rate RR 3,038 million of debts is 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.

Fair values. Management does not believe it is practicable to estimate the fair value of long-term investments, prepayments for equity in subsidiaries and associates, and long and short term debt. These instruments are not traded in the Russian financial market and an objective fair value is not, therefore, available. Unless otherwise described in the Notes to the financial statements, all balances have been included at value that approximate to their fair value.