RAO UES

PARENT COMPANY STAND-ALONE IAS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2000

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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 at 31 December 2000 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 27, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in the following paragraph, 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 stated in Note 7, we have not been able to fairly quantify revenue, expenses and the financial results attributable to the operations under trust management of the assets of coal mines Severny and Polje No. 9 with carrying value of RR 669 million. Accordingly, the financial statements do not present information on the above revenue, expenses and financial results.

4. In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to 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 at 31 December 2000 and the results of its operations and 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 Company being a going concern. For the year ended 31 December 2000, the Company incurred a net loss of RR 3,817 million (1999: RR 2,486 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.

Moscow, Russian Federation
20 August 2001

RAO UES ("Parent company" stand-alone)
Balance Sheet as at 31 December 2000
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Notes	31 December 2000	31 December 1999
Assets			
Non-current assets			
Property, plant and equipment	7	112,087	116,824
Investments	8	38,314	27,523
Other non-current assets	9	13,840	15,611
Total non-current assets		164,241	159,958
Current assets			
Cash and cash equivalents	10	1,524	197
Accounts receivable and prepayments	11	14,456	22,945
Inventories		683	496
Other current assets		506	480
Total current assets		17,169	24,118
Total assets		181,410	184,076
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	12		
Ordinary shares (nominal value RR 20,521 million)		107,788	107,788
Preference shares (nominal value RR 1,038 million)		5,605	5,605
Treasury shares		(410)	(410)
		112,983	112,983
Retained earnings and other reserves		23,905	28,399
Total shareholders' equity		136,888	141,382
Non-current liabilities			
Deferred profits tax liabilities	13	19,883	18,593
Non-current debt	14	2,886	1,225
Total non-current liabilities		22,769	19,818
Current liabilities			
Current debt and current portion of non-current debt	15	1,024	5,546
Accounts payable and accrued charges	16	7,618	7,726
Taxes payable	17	11,939	9,604
Deferred income		1,172	-
Total current liabilities		21,753	22,876
Total shareholders' equity and liabilities		181,410	184,076

Chairman of the Management Board — Chubais A. B.

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

20 August 2001

RAO UES ("Parent company" stand-alone)
Statement of Operations for the year ended 31 December 2000
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Notes	Year ended 31 December 2000	Year ended 31 December 1999
Revenues			
Transmission/subscription fees	4	16,614	13,679
Exported electricity		4,331	1,784
Imputed interest income	4	650	1,081
Heat and electricity		735	812
Rental income		138	566
Investment income		528	270
Other income		844	701
Total revenues		23,840	18,893
Operating costs	18		
High voltage network operating costs		6,442	5,146
Rental costs		611	1,397
Repairs and maintenance		3,199	2,433
Heat and electricity generation costs		674	837
Purchased electricity		1,794	541
Taxes other than on income		1,224	1,281
Administrative and general		2,293	1,786
Doubtful debtors expense		344	(1,073)
Tax fines and penalties		124	(525)
Loss on the disposal of fixed assets		416	681
Other expenses		1,125	354
Total costs and other deductions		**18,246**	**12,858**
Profit from operations		**5,594**	**6,035**
Monetary loss		(1,548)	(1,664)
Foreign exchange loss		(180)	(366)
Tax interest		(1,659)	(1,022)
Interest expense		(450)	(798)
Total monetary effects		(3,837)	(3,850)
Profit before taxation		1,757	2,185
Current profits tax charge		(4,284)	(1,876)
Deferred profits tax charge		(1,290)	(2,795)
Total tax charge	13	**(5,574)**	**(4,671)**
Net loss		**(3,817)**	**(2,486)**
Loss per share – basic and diluted (in Russian roubles)	4, 19	(0.098)	(0.064)

Chairman of the Management Board — Chubais A. B.

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

20 August 2001

RAO UES ("Parent company" stand-alone)
Statement of Cash Flows for the year ended 31 December 2000
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Notes	Year ended 31 December 2000	Year ended 31 December 1999
CASH FLOWS FROM OPERATING ACTIVITIES:	4		
Profit before taxation		**1,757**	**2,185**
Adjustments to reconcile net loss before taxation to net cash provided by operations:			
Depreciation and amortisation		6,610	6,276
Foreign exchange loss		180	366
Imputed interest income on receivables		(650)	(1,081)
Interest expense		450	798
Tax interest		1,659	1,022
Doubtful debtors expense		344	(1,073)
Dividends receivable and received in kind		(528)	(270)
Monetary effects on non-operating balances		14	(1,422)
Adjustment for non-cash investing activities		(5,661)	(7,522)
Other		798	541
Operating profit/(loss) before working capital changes		**4,973**	**(180)**
Decrease in accounts receivables and prepayments, gross		8,433	209
Increase in other current assets		(23)	(125)
Increase in inventories		(187)	(43)
Decrease in accounts payable and accrued charges		(93)	(11)
Decrease in taxes payable other than profits tax		(758)	(623)
Increase in deferred income		1,172	-
Profits tax paid/non-cash		(77)	(924)
Profits tax paid/cash		(2,775)	(602)
Net cash provided by / (used for) operating activities		**10,665**	**(2,299)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(1,962)	(326)
Additions to other non-current assets		(3,846)	-
Purchase of investments		(748)	(55)
Dividends received		422	103
Net cash used for investing activities		**(6,134)**	**(278)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		9,855	5,973
Reductions of loan		(14,995)	(4,637)
Proceeds from issuance of non-current debt		2,183	1,295
Effect of inflation on financing activities		961	1,052
Interest paid		(280)	(854)
Dividends paid		(758)	(244)
Net cash (used for) / provided by financing activities		**(3,034)**	**2,585**
Effect of inflation on cash and cash equivalents		(170)	(70)
Net increase/(decrease) in cash and cash equivalents		**1,327**	**(62)**
Cash and cash equivalents at the beginning of the year		**197**	**259**
Cash and cash equivalents at the end of the year	10	**1,524**	**197**

Chairman of the Management Board — Chubais A. B.

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

20 August 2001

RAO UES ("Parent company" stand-alone)

Statement of Changes in Shareholders' Equity for the year ended 31 December 2000

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 31 December 1998	107,788	5,605	(410)	31,269	144,252
Net loss	-	-	-	(2,486)	(2,486)
Dividends	-	-	-	(384)	(384)
At 31 December 1999	107,788	5,605	(410)	28,399	141,382
At 1 January 2000	107,788	5,605	(410)	28,399	141,382
Net loss	-	-	-	(3,817)	(3,817)
Dividends	-	-	-	(677)	(677)
At 31 December 2000	107,788	5,605	(410)	23,905	136,888

Chairman of the Management Board — Chubais A. B.

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

20 August 2001

Note 1: The Company and its operations

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

The Company's principal assets are made up as follows:

> ***High voltage network:*** The high voltage network connects all but two regions of the Russian Federation. The Company maintains this network and charges a transmission/subscription fee to users of the network.
>
> ***Generating stations:*** Thirteen generating stations are owned directly by the Company, of these eight stations are leased to its investees; two stations were exchanged for shares of the Company's subsidiary during 2000. The remaining three stations operate as electricity producers and sell electricity direct to the wholesale electricity market. In addition, the Company has ownership interest in a significant number of large stand-alone hydro and thermal generating companies;
>
> ***Regional generation and distribution companies:*** The Company has ownership interest in more than 70 regional generation and distribution companies ("Energos"). These ownership interests range from 14.2% to 100%;
>
> ***Other:*** In addition, RAO UES has ownership interest in a number of other utility-related enterprises and construction companies.

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

The Russian Federation Government Resolution No 526 dated 11 July 2001 approved guidelines for reform of the Russian utilities, and specified further steps relating to industry reform and, specifically reform of the Group. The Government Directive No1040-p dated 3 August 2001 approved an Action Plan for the first stage of the Electric Utilities Reform. It is planned to restructure the industry in order to de-monopolise it, introduce competition and raise investments. Currently the Group management is developing a detailed Action Plan for the reform of the Group, which will be presented to the Board of Directors for their consideration in Autumn 2001. In the fourth quarter of 2001, the Company's transmission assets will be hived down into a 100% owned subsidiary, and become the federal grid company.

At 31 December 2000 and at 31 December 1999, 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.

Note 1: The Company and its operations (continued)

Relations with the State. At 31 December 2000, 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/subscription 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.

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 2000, the Company incurred a net loss of RR 3,817 million (1999: RR 2,486 million). At 31 December 2000, the Company's current liabilities exceeded its current assets by RR 4,584 million. The Company continues to experience difficulties settling its tax liabilities, paying trade creditors, and meeting debts as they fall due. Certain investees are currently defending claims made against them in Arbitration Courts. In addition, two of the Company's investees are currently in receivership.

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. As a result tariffs often do not allow for an adequate return or provide sufficient funds for the full replacement of property, plan and equipment . In addition, the Company and the energos are experiencing difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

The Company and the Energos continue to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales and the cash content within these settlements. Despite this success there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling non-payers to be cut off, but this only possible to a certain extent due to strategic factors. In addition, market reforms have reduced the budgets for many governmental organisations, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 December 2000.

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

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

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

Note 2: Going concern (continued)

Management believes that the factors noted above will, among other effects, continue to affect the Company's earnings and its ability to invest in property, plant and equipment. 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 its collections, and those of its Energo investees 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 collecting old receivables and obtaining additional tariff increases. Management is also discussing potential new sources of finance. The eventual outcome of these measures is uncertain.

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

The financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS"). They represent the results and financial position of RAO UES as a "parent company" on a stand-alone basis and, as such, subsidiaries and associates are presented as investments in the financial statements. Consolidated IAS financial statements for the RAO UES Group are produced separately for the year ended 31 December 2000 and include the relevant financial information regarding the results and financial position of RAO UES and its subsidiaries and associates on a consolidated basis.

The Company maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention 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 diminution in carrying value of investments, and the discounting to fair value of trade receivables. Actual results could differ from these estimates.

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

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 3: Basis of presentation (continued)

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 2000 under respective conversion factors are:

Year	Indices	Conversion Factor
1996	594,110	3.4
1997	659,403	3.0
1998	1,216,400	1.7
1999	1,661,481	1.2
2000	1,995,937	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 2000;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2000;
- 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, management assesses the recoverability of property, plant and equipment. The appraisal values and the impact of any impairment have been restated by applying relevant conversion factors together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2000) 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 1,548 million for the year ended 31 December 2000 (1999: RR 1,664 million) because, on average the Company had net monetary assets during the year. Since 31 December 2000, inflation has continued. As of 30 June 2001 the CPI was 2,252,023 (1988=100), representing inflation of 12.83 percent since 31 December 2000.

Note 4: Summary of significant accounting policies

Early adoption of standards. International Accounting Standards issued as of 31 December 2000, 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 2000. Provision is made where, in the opinion of management, there has been impairment, such that the recoverable value has fallen below the carrying amount.

Property, plant and equipment. Property, plant and equipment as at 31 December 2000 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. Management assesses the recoverability of property, plant and equipment. Any impairment loss reduces the depreciable base of property, plant and equipment.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 4: Summary of significant accounting policies (continued)

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.

Property, plant and equipment are depreciated on a straight-line basis over its remaining useful life. The average remaining useful life as at 31 December 2000, weighted by the closing net book value of these assets, is shown in the table below.

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

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

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

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

Leased assets. Company leases assets to other Energos. Under the lease agreement 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. Revenue from leasing activities is recognised evenly, over the lease term 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 2000 and 1999 are translated into Russian roubles at the exchange rates prevailing at that respective 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.

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 2000 was 28.16:1 (year ended 31 December 1999: 27.00:1). Significant exchange restrictions and controls exist relating to converting the Russian rouble into other currencies. At present, the Russian rouble is not a convertible currency outside of the Russian Federation.

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

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.

Note 4: Summary of significant accounting policies (continued)

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 are outweighed by the cost of preparation.

Accounts receivable and prepayments. Accounts receivable are discounted to their fair value using an imputed rate of interest determined by management to reflect the timing of future settlements.

An allowance for doubtful debtors, as determined by management, is recorded to reduce the carrying value of 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 2000 was 12 percent (1999: 15 percent). Value added tax at 20 percent is applied to other non-transmission sales, with the exception 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 2000. 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. These 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.

Note 4: Summary of significant accounting policies (continued)

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the outflow is probable and reliable estimate exists.

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. Those components of revenue, which are bound by legal obligations, are recognised as these obligations are fulfilled. Any difference between amounts accrued and obligations fulfilled is shown in the balance sheet as deferred income. Revenue figures are presented exclusive of value added taxes.

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 2000. 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. Substantially all electricity is purchased from related parties (as discussed in Note 6). All electricity purchased is exported to countries including the CIS.
- ***"Generation and leasing"*** – the Company owns eleven power stations. Eight 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 FOREM. The Company also participates in joint ventures with Energos and other entities to construct new power stations.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 5: Segmental information (continued)

Year ended 31 December 2000	**Transmission**	**Long term investments**	**Purchase and sale of electricity**	**Generation and leasing**	**Total**
Revenues	17,421	528	4,331	1,560	23,840
Segment result	6,740	82	2,410	(1,345)	7,887
Administrative and general costs					(2,293)
Monetary effects					(3,837)
Profit before taxation					1,757
Profits tax charge					(5,574)
Net loss					(3,817)
Capital expenditure	1,798	-	-	1,464	3,262
Depreciation and amortisation	5,439	-	-	1,171	6,610
Impairment loss	-	-	-	-	-
Doubtful debtors expense	-	-	-	344	344
Other non-cash expenses	-	-	-	-	-
As at 31 December 2000					
Segment total assets	111,305	46,480	873	22,752	181,410
Segment liabilities	8,431	2,141	1,166	3,415	15,153
Unallocated liabilities					29,369
Total liabilities					44,522

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 5: Segmental information (continued)

Year ended 31 December 1999	Transmission	Long term investments	Purchase and sale of electricity	Generation and leasing	Total
Revenues	14,521	270	1,784	2,318	18,893
Segment result	6,931	267	1,204	(581)	7,821
Administrative and general costs					(1,786)
Monetary effects					(3,850)
Profit before taxation					2,185
Profits tax charge					(4,671)
Net loss					(2,486)
Capital expenditure	1,437	-	-	1,135	2,572
Depreciation and amortisation	4,534	-	-	1,742	6,276
Impairment loss	-	(28)	-	-	(28)
Doubtful debtors expense	(1,073)	-	-	-	(1,073)
Other non-cash expenses	-	-	-	(114)	(114)
As at 31 December 1999					
Segment total assets	122,952	34,830	828	25,466	184,076
Segment liabilities	7,747	2,165	294	3,193	13,399
Unallocated liabilities					29,295
Total liabilities					42,694

Secondary reporting segments - geographical segments The Company operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. As noted above, the Company owns, operates and maintains the high voltage transmission network. The transmission network is located nearly throughout the territory of the Russian Federation but is recorded in the books of the Company without details of geographic location. As a consequence it is not practicable to split the transmission network assets of 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 2000)

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	
	2000	1999	2000	1999	2000	1999
RAO UES	5,802	3,336	130,151	138,910	963	366
Siberia	3,554	3,021	11,282	13,709	454	513
Urals	4,230	3,862	8,628	10,796	751	485
Centre	5,390	4,554	7,101	7,511	239	428
North-West	1,842	1,587	4,722	4,488	379	346
East	558	424	10,831	2,303	76	58
Mid-Volga	1,382	1,153	1,320	1,373	157	70
South	1,082	956	7,375	4,986	243	306
Total	23,840	18,893	181,410	184,076	3,262	2,572

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
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
Yakutskenergo

Note 6: Related parties (continued)

North-West

Arkhenergo
Bryanskenergo
Karelenergo
Kolenergo
Komienergo
Lenenergo
Novgorodenergo
Pskovenergo
Smolenskenergo
Yantarenergo

Siberia

Altaienergo
Buryatenergo
Chitaenergo
Khakasenergo
Krasnoyarskenergo
Kuzbassenergo
Omskenergo
Tomskenergo

Hydrogenerating companies

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

Thermal generating companies

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

Construction companies

Boguchangesstroi
Bureyagesstroy
Cherkeigesstroi
Zeyagesstroi

Other

Central Dispatch Centre
Centre of Settlement Optimization
Neftianoy Dom

ASSOCIATE INVESTEES

Bashkirenergo
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. Certain subsidiaries provided construction services to the Company RR 272 million (1999: RR 649 million) during the year. Outstanding construction liabilities with these related parties amounted to RR 662 million and RR 604 million as at 31 December 2000 and 31 December 1999, respectively. Outstanding payables in respect of purchased electricity amount to RR 717 million as at 31 December 2000 (1999: RR 222 million).

Significant transactions with subsidiary and associated related parties

As shown in the Statement of Operations from year ended 31 December 2000, substantially all revenue, with the exception of exported electricity, is received from the above subsidiary and associate related parties, as they are the main customer in respect of transmission fees. Substantially all exported electricity is purchased from subsidiary and related parties. For the year ended 31 December 2000 RR 1,512 million (1999: RR 434 million) of electricity was purchased from subsidiary and associated related parties at prices set for FOREM by FEC. In addition, RR 339 million (1999: RR 287 million) and RR 266 million (1999: RR 348 million) included within high voltage network operating costs and repairs and maintenance, respectively, arose through transactions with these related parties, on normal commercial terms.

Inter-RAO is a subsidiary of the Company. The Company's holding in Inter-RAO is included in "Other investments" and is not material. During 2000 Inter-RAO was involved in mutual settlements of the Company's export electricity receivables from CIS. The commission charged for this service is equal RR 25 million for 2000. Commission was transacted on arm's length bases. The balance outstanding due to the Company from Inter-RAO included in other receivables was RR 565 million as at 31 December 2000. As at 31 December 2000 the Company had outstanding liabilities to Inter-RAO of RR 25 million included in other creditors.

Shares of RAO UES held by subsidiaries

As at 31 December 2000 48,674,643 (1999: 44,670,648) ordinary and 16,605,418 (1999: 13,964,734) preference shares of the Company are held by subsidiaries.

Other related parties

Eurofinance is a financial organisation, which provides services to the Company. These services include the collection of substantially all transmission fees balances, the provision of short term loans, and the purchase and sale of promissory notes (veksels). A member of the management board of RAO UES is also a member of the board of directors of Eurofinance. The commission and the interest charged by Eurofinance to RAO UES is equal to RR 54 million for 2000 (1999: Nil). Commission and interest were transacted on an arm's length basis. As at 31 December 2000 the Company held RR 836 million of promissory notes of Eurofinace (1999: Nil). The balance outstanding due to the Company from Eurofinance was RR 176 million as at 31 December 2000 (1999: RR 71 million).

Directors' compensation

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

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

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 6: Related parties (continued)

Total salary and bonuses paid to members of the Management Board by the Company and its energo investees, amounted to RR 60 million for the year ended 31 December 2000.

Note 7: Property, plant and equipment

	Electricity Generation	Electricity Transmission	Construction in Progress	Other	Total
Appraised value / Cost					
Balance as at 31 December 1998	40,113	150,119	36,001	7,126	233,359
Additions	54	17	2,154	347	2,572
Disposals	(58)	(124)	(642)	(301)	(1,125)
Transfers	535	1,909	(2,923)	479	-
Net transfers from/(to) other non-current assets	24	-	(509)	108	(377)
Balance as at 31 December 1999	40,668	151,921	34,081	7,759	234,429
Additions	47	15	2,908	292	3,262
Transfers	479	1,200	(1,812)	133	-
Disposals	(245)	(232)	(424)	(114)	(1,015)
Net transfers from/(to) other non-current assets	-	-	274	-	274
Transfers to investments	(7,992)	(1,704)	(376)	(814)	(10,886)
Balance as at 31 December 2000	32,957	151,200	34,651	7,256	226,064
Accumulated depreciation					
Balance as at 31 December 1998	(31,329)	(60,727)	(16,323)	(3,694)	(112,073)
Charge for the year 1999	(204)	(4,657)	-	(1,415)	(6,276)
Transfers	(215)	(985)	1,329	(129)	-
Disposals	31	36	643	34	744
Balance as at 31 December 1999	(31,717)	(66,333)	(14,351)	(5,204)	(117,605)
Charge for the year 2000	(762)	(5,439)	-	(409)	(6,610)
Transfers	(159)	(473)	674	(42)	-
Disposals	121	108	163	68	460
Transfers to investments	7,175	1,531	331	741	9,778
Balance as at 31 December 2000	(25,342)	(70,606)	(13,183)	(4,846)	(113,977)
Net book value as at 31 December 1999	8,951	85,588	19,730	2,555	116,824
Net book value as at 31 December 2000	7,615	80,594	21,468	2,410	112,087

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 7: Property, plant and equipment (continued)

The Company leases eight power stations to its Energo investees and assets of coal mines, as described in this note below, under operating leases. The carrying value of leased assets included in the above table is shown below.

	31 December 2000	31 December 1999
Appraised value / Cost	27,951	37,963
Accumulated depreciation	(24,887)	(34,112)
Net book value	3,064	3,851

Future rental income due under the non-cancellable operating leases shown in the table below is based on the 2001 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 2000	31 December 1999
Less than 1 year	501	765
Two to five years	117	902
Total	618	1,667

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

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 51% (1999: 91%) of the additions to construction in progress have been settled through mutual settlement, barter and other non-cash means, 49% (1999: 9%) settled through cash means.

During 2000 RR 1,108 million of property, plan and equipment were exchanged for shares of the Company's subsidiary and are shown as a transfer to investments in the fixed asset movement table above.

In prior year joint investment activity between the Company and Energos or other third parties was included in property, plant and equipment. In 2000 the joint investment activity amounting to RR 3,230 million as at 31 December 2000 (1999: RR 8,476 million) has been included in other non-current assets. The comparatives have been adjusted accordingly.

Impairment. For the year ended 31 December 2000, management has assessed the adequacy of its existing impairment provision and concluded that the amount is still appropriate. Accordingly, no further adjustment has been recorded. Real discount rates approximating to 21 percent reducing over time to 9 percent have been used in the estimate of recoverable value through discounted cash flows. The impairment provision included within the accumulated depreciation balance as at 31 December 2000 is RR 86,695 million.

Management cannot predict with certainty the length or impact of the current economic difficulties, nor the impact of future changes in fiscal, political and tariff setting policies. Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise t a significantly different amount for the impairment provision. In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions in Russia.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 7: Property, plant and equipment (continued)

Trust management. On the basis of a Contract No. 126 of 5 November 1999 the Company transferred on 1 December 1999 the assets of coal mines Severny and Polje No.9 (whose carrying value is RR 669 million) under the trust management of OOO Bogatyr Acess Komir (the Trust manager). This contract finished on 1 December 2000 and the Company signed a contract for an operating lease of the same assets with the same counter party. The assets remain in property, plant and equipment at the same value and rental payments are included in revenue in the statement of operations from that date.

The Trust manager failed to meet the terms of the trust Contact and did not use the transferred assets to generate profits exclusively to the benefit of the trust (by extracting coal with the use of the transferred assets and subsequent sales of that coal on behalf of the trust). In addition, the Trust manager did not maintain separate accounting for trust operations and failed to use a specially opened bank account for effecting relevant settlements, which made it impossible to obtain the results of operations under the trust management. This may also result in unfavourable tax implications for the Company.

Note 8: Investments

	Subsidiaries and associates	Other investments	Total
Carrying value as at 31 December 1998	23,793	2,315	26,108
Additions	80	7	87
Transfers from other non-current assets	1,297	3	1,300
Impairment	(778)	806	28
Transfers	2,202	(2,202)	-
Carrying value as at 31 December 1999	26,594	929	27,523
Carrying value as at 01 January 2000	26,594	929	27,523
Additions	1,495	314	1,809
Transfer from property, plant and equipment	1,108	-	1,108
Transfers from other non-current assets	7,753	121	7,874
Transfers	213	(213)	-
Carrying value as at 31 December 2000	37,163	1,151	38,314

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.

Additions to subsidiary and associated investments of RR 748 million and RR 747 million were financed through cash and non-cash transactions respectively (1999: RR 50 million and RR 30 million respectively).

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

The transfer from other non-current assets of RR 7,753 million (1999: RR 1,297 million) is from equity prepayments and joint investment activity, 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.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 8: Investments (continued)

The carrying value of investments was adjusted for impairment in prior years. For the year ended 31 December 2000, management has reassesed the adequacy of its existing impairment provision and concluded that the amount is still appropriate.

Note 9: Other non-current assets

	31 December 2000	31 December 1999
Joint investment activity	3,230	8,476
Advances for equity in subsidiaries and associates	8,059	7,047
Other	2,551	88
	13,840	15,611

Joint investment activity
The Company participates in construction projects with Energos or third parties, each party contributing cash and assets to the project. These projects represent the construction of generation and distribution fixed assets. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the project. At this time the balance is transferred to investments. As described in Note 7, in prior years this balance for joint investment activity was included within property, plant and equipment.

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

In 2000 the Company converted RR 7,874 million (1999: RR 1,300 million) of these advances and joint investment activity into equity, which has been included in investments (see Note 8). Further advances and contributions in joint investment activity in 2000 amounted to RR 4,981 million, being RR 1,326 million and RR 3,655 million, cash and non-cash respectively (1999: RR 4,761 million were financed all through non-cash transactions).

Other non-current assets include RR 2,520 million of prepayment for the repurchase of the Company's bonds as described in Note 14.

Note 10: Cash and cash equivalents

	31 December 2000	31 December 1999
Cash at bank and in hand	363	197
Cash equivalents	1,161	-
	1,524	197

Cash equivalents comprise bank promissory notes.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 11: Accounts receivable and prepayments

	31 December 2000	31 December 1999
Trade receivables	9,301	14,873
Other receivables	3,707	5,913
(Net of allowance for doubtful accounts of RR 2,047 million for 2000 and RR 2,004 million for 1999)		
Advances to suppliers	911	1,594
Prepayments and accrued income	121	378
Value added tax recoverable	416	187
	14,456	22,945

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 2,426 million (1999: RR 2,966 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 1,475 million (1999: RR 471 million) is expected to be recovered within one to two years and RR 523 million (1999: RR 1,432 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 2000 approximately 45% (1999: 68%) 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 2000	31 December 1999
Ordinary shares	41,041,753,984	107,788	107,788
Preference shares	2,075,149,384	5,605	5,605
		113,393	113,393

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.

Ordinary shares and preference shares. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholder's meeting. Preference shares are not convertible into ordinary shares and are entitled to a minimum annual dividend of 10 percent of net statutory profit. 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 2000, the statutory profit for the Company, RAO UES, as reported in the published annual statutory reporting forms, was RR 6,413 million (1999: RR 2,583 million uninflated).

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 12: Shareholders' equity (continued)

However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly, management believes at present it would be not appropriate to disclose an amount for the distributable reserves on these financial statements.

A dividend was declared in 2001 in respect of 2000 to holders of ordinary shares and preference shares of RR 0.02 per ordinary share (1999: RR 0.0157 per ordinary share, RR 0.0131 per ordinary share uninflated) and RR 0.0738 per preference share (1999: RR 0.0441 per preference share, RR 0.0367 per preference share uninflated). Preference dividends outstanding were RR 16 million as at 31 December 2000 (1999: RR 13 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 2000 and as at 31 December 1999 represent 351,857,799 ordinary and 935,002 preference shares purchased and held by the Company, at cost.

	31 December 2000	31 December 1999
Ordinary shares	405	405
Preference shares	5	5
	410	410

Note 13: Profits tax

The Company accrues income taxes at the rate of 30% on taxable profits computed in accordance with the Russian tax legislation. Net profit before taxation for financial reporting purposes is reconciled to tax expenses as follows:

	Year ended 31 December 2000	Year ended 31 December 1999
Profit before taxation	(1,757)	(2,185)
Theoretical tax benefit/(charge) at a statutory rate of 30 percent thereon	(527)	(655)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income that is not assessable for profits tax purposes	933	975
Expenses non-deductible for profits tax purposes	(3,312)	(585)
Non-temporary elements of monetary gains / losses	(6,779)	(10,895)
Inflation effect on deferred tax balance at beginning of year	3,116	4,232
Effect of (increase)/reduction on tax rate	(2,840)	2,257
Temporary difference on statutory revaluation of tax base	3,835	-
Total tax charge	(5,574)	(4,671)

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

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

Note 13: Profits tax (continued)

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 35% (1999: 30%). The cumulative effect of such differences is as follows:

Deferred profits tax liability	31 December 2000	Movement for the year	Change in tax rate	31 December 1999
Trade receivables	(1,416)	489	(202)	(1,703)
Property, plant and equipment	(18,559)	1,170	(2,651)	(17,078)
Other	(60)	(51)	(9)	-
	(20,035)	1,608	(2,862)	(18,781)

Deferred profits tax asset	31 December 2000	Movement for the year	Change in tax rate	31 December 1999
Accounts payable	96	(69)	14	151
Other	56	11	8	37
	152	(58)	22	188
Net deferred profit tax liability	(19,883)	1,550	(2,840)	(18,593)

Temporary differences of RR 21,149 million (1999: RR 19,193 million) are associated with long term investments. However, the Company is able to control any disposal and it is probable that the temporary difference will not reverse in the foreseeable future. Consequently, in accordance with IAS 12 (revised 1996), the deferred profits tax liability has not been recognised.

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

Note 14: Non-current debt

	Currency	Interest rate	Due	31 December 2000	31 December 1999
Bonds	RR*	5%	2002-2003	3,000	1,247
Less: unreleased portion of discount	RR			(114)	(67)
				2,886	1,180
Bank debt	US$	20%	2000	-	1,862
Bank debt	US$	7%	2000 onwards	43	80
				2,929	3,122
Less: current portion of non-current debt				(43)	(1,897)
Total				2,886	1,225

Maturity Table	31 December 2000	31 December 1999
Due for re-payment		
Between one and two years	982	45
Between two and five years	2,018	1,247
	3,000	1,292

*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 2000)

Note 14: Non-current debt (continued)

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

Interest is payable on the 365th, 731st and 1096th day from the bond placement commencement date. These bonds mature 3 years from their issue date, at nominal value. For both interest payments and the redemption of these bonds the Russian rouble amount is adjusted to reflect any currency movements between the Russian rouble and the US$ from the date of issuance of the bonds, December 1999 and February 2000.

In 2000 the Company entered into a forward contract to repurchase these 3,000,000 bonds with a settlement date in December 2002. The Company made a prepayment of RR 2,520 million (see Note 9) at the time of signing the repurchase agreement and a further immaterial amount will be paid shortly before the settlement date.

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

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

	Currency	Interest rate	31 December 2000	31 December 1999
Bank debt	RR	38%-65%	-	3,140
Bank debt	RR	17%-20%	978	217
Bank debt	RR	7% - 11%	3	292
Current portion of non-current debt			43	1,897
			1,024	5,546

All the above debt is unsecured (1999: RR 3,650 million was secured against specific trade receivables from Group companies, the security was equal to RR 5,333 million and included amounts in respect of future interest). The debt is obtained at a variable interest rate.

Note 16: Accounts payable and accrued charges

	31 December 2000	31 December 1999
Construction payables	2,192	2,777
Trade payables	1,353	542
Bills of exchange payable	1	36
Dividends payable	47	226
Accrued liabilities and other creditors	4,025	4,145
	7,618	7,726

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 2,025 million (1999: RR 2,025 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 2000, approximately 55% (1999: 86%) 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 2000)

Note 17: Taxes payable

Taxes payable consists of the following:

	31 December 2000	31 December 1999
Value added tax	4,421	3,945
Fines and interest	3,477	2,702
Turnover taxes	1,434	1,522
Profits tax	2,052	796
Property tax	205	190
Employee taxes	178	165
Other taxes	172	284
	11,939	9,604

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

- in Value added tax – RR 1,156 million (1999: RR 1,974 million);
- in Turnover taxes – RR 80 million (1999: RR 506 million).

In 2000, approximately 7% (1999: 48%) 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 6,610 million (1999: RR 6,276 million) and gross staff costs of RR 2,540 million (1999: RR 2,109 million), including approximately RR 698 million (1999: RR 572 million) of employment and related payroll taxes.

Note 19: Earnings per share

Earnings / (loss) per share is calculated by dividing the net income/(loss) attributable to shareholders after the deduction of the declared dividend to preference shareholders by the weighted average number of ordinary and preference shares in issue during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. Preference shares do not participate in losses and are therefore excluded from the calculation of loss per share. 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 2000
Net loss	(3,817)
2000 dividend to preferred shareholders	(153)
Net loss attributable to ordinary shareholders	(3,970)

	Year ended 31 December 1999
Net loss	(2,486)
1999 dividend to preferred shareholders	(91)
Net loss attributable to ordinary shareholders	(2,577)

There were 40.7 billion weighted average ordinary shares outstanding for the years ended 31 December 2000 and 31 December 1999. There were 2.1 billion weighted average preference shares outstanding for the year ended 31 December 2000 and 31 December 1999. However, the preference shares do not participate in the loss for 2000 and 1999.

Note 19: Earnings per share (continued)

The basic loss per share above is for RAO UES as a parent company on a stand-alone basis. The profit/(loss) per share for the RAO UES Group is disclosed in the 2000 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 2000 was equal to RR 60 million (1999: RR 13 million).

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 2,962 million at 31 December 2000 (1999: RR 2,626 million).

Guarantee. After the year end the Company issued guarantees totalling US $140 million in favour of a subcontractor carrying out construction work at one of its subsidiaries.

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, as further described in Note 1.

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

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

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

Industry changes. Under the Government Resolution No 526 dated 11 July 2001 "On the Reform of the Russian Federation Electric Utilities", a non-regulated market will be set up for, initially, sales of 5-15% of electricity generated. After 2004 all sales of electricity generated will become subject to free trade. The industry structure will also change. According to the "Action Plan for the 1^{st} Stage of the Electric Utilities Reform", approved by the Government Directive No1040-p dated 3 August 2001, the following entities will be established: a Trade Administrator in the third quarter of 2001; in the fourth quarter, a federal grid company; and in the first quarter of 2002, a System Operator (in charge of the electricity despatch). These entities, but not trade administrator, will be established as 100% subsidiaries of RAO UES. Starting in the fourth quarter of 2001 independent generators will begin to be established. At regional level, regional grid companies will be established based on the regional energos for the purpose of non-discriminatory access for all electricity generators and customers to the grid.

Note 21: Contingencies (continued)

In addition, during restructuring amendments to the Russian legislation will be proposed. Group Management will take an active part in the development of the new regulations and amendment of the existing ones.

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 beyond the allowance already recorded. 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. Additionally, the Company has placed a forward contract with a foreign bank for the repurchase of its bonds, as discussed in Note 14.

Foreign exchange risk. The Company primarily operates within the Russian Federation with minimal exports of electricity. The majority of Company's purchases are denominated in Russian roubles. The Company is exposed to foreign exchange risk primarily though long-term loans of US $1.5 million and the bond issued in December 1999 and February 2000 (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 on debt of RR 1,024 million is variable. Interest rates on rouble denominated debt are reset when the underlying Central Bank re-financing rate changes. The Central Bank re-financing rate has fluctuated significantly during the year. Assets are generally non-interest bearing.

Fair values. Management are currently assessing the fair value of long-term investments and current and non-current debt in accordance with the requirements of IAS 39. This standard becomes effective for financial periods beginning on or after 1 January 2001.