RAO UES GROUP
IAS CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 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 consolidated interim balance sheet of RAO UES and its subsidiaries (hereinafter referred to as the "Group") as of 30 June 2000 and the related consolidated interim statements of operations, of cash flows and of changes in shareholders' equity for the six months then ended. These interim financial statements, set out at pages 1 through 27, are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the interim financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Group has prepared consolidated interim financial statements in accordance with International Accounting Standards ("IAS") for the first time for the six months ended 30 June 2000. The accompanying consolidated interim financial statements do not include comparative amounts for the consolidated interim statements of operations, of cash flow and of changes in shareholders' equity for the six months ended 30 June 1999, as required by International Accounting Standards.

4. In our opinion, except for the omission of comparative information as described in paragraph 3, the accompanying consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2000 and the results of its operations and its cash flows for the six months then ended, in accordance with International Accounting Standards.

5. Without further qualifying our opinion, we draw attention to Note 2. The financial statements have been prepared in accordance with accounting policies based on the Group being a going concern. As of 30 June 2000 the Group's current liabilities exceeded its current assets by RR 67,024 million (31 December 1999: RR 69,922 million). Furthermore, as disclosed in Note 2, the Group continues to experience difficulties in settling its tax liabilities, paying its creditors and in meeting debts as they fall due. These factors in addition to the limitations on tariff increases, difficulties in collecting receivables from prior years, and economic difficulties in the Russian Federation indicate the existence of a material uncertainty which may raise substantial doubt about the ability of the Group to be able to continue as a going concern. The accompanying interim financial statements do not include any adjustment that might result from the outcome of this uncertainty.

PricewaterhouseCoopers.

Moscow, Russian Federation
25 October 2000

RAO UES Group

Consolidated Interim Balance Sheet as at 30 June 2000

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

	Notes	30 June 2000	31 December 1999
Assets			
Non-current assets			
Property, plant and equipment	8	577,127	571,627
Investments in associates	9	11,857	12,029
Other investments		12,002	12,071
Other non-current assets		3,377	2,293
Total non-current assets		**604,363**	**598,020**
Current assets			
Cash and cash equivalents	10	3,031	1,814
Accounts receivable and prepayments	11	126,858	122,481
Inventories	12	28,928	28,889
Other current assets		3,913	2,753
Total current assets		**162,730**	**155,937**
Total assets		**767,093**	**753,957**
Shareholders' equity and liabilities			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 20,521 millions)		98,286	98,286
Preference shares (nominal value RR 1,038 millions)		5,111	5,111
Treasury shares		(512)	(487)
		102,885	102,910
Retained earnings and other reserves		227,531	221,875
Total shareholders' equity		**330,416**	**324,785**
Minority interests	14	129,871	125,858
Non-current liabilities			
Deferred profits tax liabilities	15	63,832	65,795
Non-current debt	16	10,226	7,132
Other non-current liabilities		2,994	4,528
Total non-current liabilities		**77,052**	**77,455**
Current liabilities			
Current debt and current portion of non-current debt	17	9,411	12,737
Accounts payable and accrued charges	18	126,324	128,168
Taxes payable	19	94,019	84,954
Total current liabilities		**229,754**	**225,859**
Total shareholders' equity and liabilities		**767,093**	**753,957**

Chairman of the Management Board — Chubais A. B.

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

25 October 2000

RAO UES Group

Consolidated Interim Statement of Operations for the six months ended 30 June 2000

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

	Notes	Six months ended 30 June 2000
Revenues		
Electricity		92,710
Heating		26,728
Transmission fees		878
Governmental assistance	20	971
Other		11,030
Total revenues		**132,317**
Costs and other deductions		
Fuel expenses		39,001
Depreciation and amortisation	8	19,474
Wages and payroll taxes		19,966
Taxes other than income		14,296
Purchased power		12,719
Doubtful debtors expense		250
Repairs and maintenance		8,849
Other materials		9,163
Gain on disposal of fixed assets and investments	5	(110)
Social expenditures		1,915
Other expenses, net		7,106
Total costs and other deductions		**132,629**
Loss from operations		**(312)**
Share of income of associates	9	32
Loss before monetary effects and taxation		**(280)**
Monetary gain	3	9,515
Interest expense		(959)
Foreign exchange loss		(570)
Income before taxation		**7,706**
Current profits tax charge		(5,152)
Deferred profits tax benefit	15	3,489
Share of associate tax charge	9	(204)
Total tax charge	15	**(1,867)**
Income before minority interest		**5,839**
Minority interest: share of net income	14	(812)
Net income		**5,027**
Earnings per share – ordinary and preference shares (in Russian roubles)	21	0.12

Chairman of the Management Board — Chubais A. B.

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

25 October 2000

The accompanying notes are an integral part of these consolidated interim financial statements.

RAO UES Group

Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2000

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000

	Notes	Six months ended 30 June 2000
CASH FLOW FROM OPERATING ACTIVITIES:	4	
Income before taxation		**7,706**
Adjustments to reconcile income before taxation to net cash provided by operations:		
Depreciation and amortisation		19,474
Doubtful debtors expense		250
Interest expense		959
Share of income of associates		(32)
Gain on disposal of fixed assets and investments		(110)
Gain on regaining of control of Kuzbassenergo		(4272)
Monetary and unrealised foreign exchange effects on non-operating balances		(8,657)
Adjustment for non-cash investing activities		(13,570)
Other		1
Operating income before working capital changes		**1,749**
Increase in accounts receivable and prepayments		(4,626)
Increase in other current assets		(1,160)
Increase in inventories		(39)
Decrease in accounts payable and accrued charges		(2,245)
Increase in taxes payable other than profits tax		7,526
Decrease in other non-current liabilities		(1,533)
Profits tax paid/non-cash		(1,445)
Profits tax paid/cash		(2,167)
Net cash used in operating activities		**(3,940)**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	8	(2,774)
Proceeds from sale of property, plant and equipment		979
Proceeds from the sale of investments		69
Net proceeds / additions from the sale of other non-current assets		(109)
Net cash used for investing activities		**(1,835)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of current debt		18,064
Proceeds from issuance of non-current debt		8,224
Reduction of loans		(19,370)
Effect of inflation on financing activities		1,730
Interest paid		(923)
Dividends paid		(484)
Purchase of treasury shares		(25)
Net cash provided by financing activities		**7,216**
Effect of inflation on cash and cash equivalents		**(224)**
Increase in cash and cash equivalents		**1,217**
Cash and cash equivalents at the beginning of period		**1,814**
Cash and cash equivalents at the end of period	10	**3,031**

Chairman of the Management Board — Chubais A. B.

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

25 October 2000

RAO UES Group

Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2000

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 2000	98,286	5,111	(487)	221,875	324,785
Net income	-	-	-	5,027	5,027
Dividends	-	-	-	(614)	(614)
Other	-	-	-	1,243	1,243
Purchase of treasury shares	-	-	(25)	-	(25)
At 30 June 2000	98,286	5,111	(512)	227,531	330,416

Chairman of the Management Board Chubais A. B.

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

25 October 2000

Note 1: The Group and its operations

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

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

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

The RAO UES Group (hereinafter referred to as the "Group") consists of RAO UES and its related subsidiaries and associates as at 30 June 2000. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by CDC and Regional Despatch Centres, which are all under the control of the Group, in order to meet system requirements in an efficient manner.

All member companies of the Group are incorporated under the laws of the Russian Federation (hereinafter referred to as "the state").

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

At 30 June 2000, the number of employees of the Group was approximately 661,000 (31 December 1999: 664,000).

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

Relations with the state. At 30 June 2000, the Russian Federation owned 52.7 percent of RAO UES, which represents 54.9 percent of ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The Group's customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Energy Commission ("FEC"), with respect to its wholesale energy sales, and by Regional Energy Commissions ("RECs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed by regulations both specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from the IAS basis of accounting. In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases which are less than required.

Note 1: The Group and its operations (continued)

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on Group entities to provide connection in respect to the supply of electricity and the supply of heating to customers in the Russian Federation. As part of the Russian Federation's continuing efforts to collect taxes, Governmental Resolution Number 1 was issued on 5 January 1998 and amended on 17 July 1998. Except for certain governmental and other entities, this resolution allows electric power suppliers, including Group entities, to discontinue the supply of electricity and heat to delinquent customers.

As described in Note 23, the government's economic, social and other policies could have material effects on the operations of the Group.

Note 2: Going concern

At 30 June 2000, the Group's current liabilities exceeded its current assets by Russian roubles ("RR") 67,024 million (31 December 1999: RR 69,922 million). The Group continues to experience difficulties settling its tax liabilities, paying trade creditors and its employees' salaries, and meeting debts as they fall due. In addition, one Group entity is currently in receivership. The total net assets of this entity as at 30 June 2000 amount to RR 296 million. This entity has been treated as an investment and is carried at cost, as disclosed in Note 5. Certain other Group entities are also currently defending claims from creditors made against them in Arbitration Courts.

As discussed above, the Group is affected by government policy through control of tariffs and other factors. In recent years the Regional Energy Commissions have not always permitted tariff increases in line with inflation and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs under an IAS basis of accounting.

In common with many Russian companies, the Group continues to experience significant non-payment or slow payment for its services. This has an adverse impact on the Group's cash flow. Despite legislation enabling the Group to cut off non-payers, the Group is only able to cut off non-payers to a certain extent due to social factors. Market reforms have reduced the budgets for many governmental organisations. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 30 June 2000.

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

Note 2: Going concern (continued)

Management believes that the factors noted above, among other effects, continue to affect the Group's earnings and its ability to recover its investments in property, plant and equipment and accounts receivable. Despite the economic conditions described above management believes that the Group will be able to continue as a going concern for the foreseeable future. The Group's operations are of strategic importance to the Russian economy. Management has taken steps which have improved cash collections. As a consequence of these measures management has increased both the level of collections and the proportion of cash within collections. Difficulties still remain in respect to the collection of receivables for prior years. Improvement of tariff rates has been obtained. However, these tariff increases are not sufficient to match all cost increases, or provide an appropriate level of return. Management is continuing its efforts with respect to further improving collections and obtaining additional tariff increases. Management is continuing to discuss with principal suppliers the continued supply of fuel and other materials. Group management is also discussing potential new sources of finance. The eventual outcome of these measures is uncertain.

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

Note 3: Basis of presentation

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention method except for revaluations of property, plant and equipment (see Note 8), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee.

The Group has prepared consolidated interim financial statements in accordance with IAS for the first time for the six months ended 30 June 2000. These consolidated interim financial statements do not comply with both IAS Number 1 (Revised), "Presentation of Financial Statements" and IAS Number 34, "Interim Financial Reporting" because comparative amounts for the consolidated interim statements of operations, of cash flow and of changes in shareholders' equity for the six months ended 30 June 1999 are not presented.

The preparation of consolidated financial statements in conformity with IAS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to the impairment provision, deferred profits taxes and the allowance for doubtful accounts. Actual results could differ from these estimates.

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

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics (Goscomstat), and from indices obtained from other published sources for years prior to 1992. The index used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 30 June 2000 under respective conversion factors are:

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 3: Basis of presentation (continued)

Year	Indices	Conversion Factor
31 December 1995	487,575	3.7
31 December 1996	594,110	3.1
31 December 1997	659,403	2.7
31 December 1998	1,216,400	1.5
31 December 1999	1,661,481	1.1
30 June 2000	1,819,986	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 30 June 2000;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 June 2000;
- as described in Note 8, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 8, management as at 31 December 1998 reassessed the recoverability of property, plant and equipment, resulting in an impairment loss. The appraisal values and the impairment have been restated by applying relevant conversion factors together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 30 June 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 Group's net monetary position is included in the statement of operations as a net monetary gain.

The statement of operations includes a net monetary gain of RR 9,515 million for the six months ended 30 June 2000 because on average the Group had net monetary liabilities during the six months. Since 30 June 2000, inflation has continued. As of 31 August 2000 the CPI was 1,870,828 (1988=100), representing inflation of 2.79 percent since 30 June 2000.

Note 4: Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of RAO UES and the financial statements of those entities whose operations are controlled by RAO UES. Control is deemed to exist when RAO UES controls greater than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. Control is deemed to exist for such entities on the basis of a dominant shareholding combined with other factors which allow the Group to exercise control.

The principal subsidiary companies described in Note 5 were transferred to RAO UES by the Russian Federation on and after its incorporation into a joint stock company. These transfers represented a reorganisation of assets under the common control and, accordingly, are accounted for in a manner similar to uniting of interests from the date of privatisation of each Group entity.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 4: Summary of significant accounting policies (continued)

All material inter-group balances and transactions have been eliminated. Separate disclosure is made of minority interests. Certain non-material subsidiaries have not been consolidated.

Associated enterprises. Investments in associated enterprises are accounted for using the equity method of accounting. Associated enterprises are entities over which RAO UES is deemed to exercise significant influence but which it does not control.

Other investments. Investments are carried at historical cost restated to the equivalent purchasing power of Russian rouble at 30 June 2000. Provision is made where, in the opinion of management, there is a permanent diminution in value below the carrying amount.

Foreign currency. Monetary assets and liabilities which are held by Group entities and denominated in foreign currencies at 30 June 2000 are translated into Russian roubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian rouble and the US Dollar at 30 June 2000 was 27.75:1 (year ended 31 December 1999: 27.00:1). Material exchange restrictions and controls exist relating to converting the Russian rouble into other currencies. At present, the Russian rouble is not a convertible currency outside of the Russian Federation.

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

Property, plant and equipment. Property, plant and equipment as at 30 June 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. As at 31 December 1998, management reassessed the recoverability of property, plant and equipment. The resulting impairment loss has reduced the depreciable base of property, plant and equipment.

Additions are recorded at cost. Major renewals and improvements are capitalised and the assets replaced are retired. Costs of borrowing are not capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Under Russian law, land on which the Group carries out its activities is the property of the state and, therefore, is not included in the consolidated balance sheet.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

Type of facility	**Years**
Electricity and heat generation	50
Electricity transmission	40
Electricity distribution	40
Heating networks	25
Other	15

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

Note 4: Summary of significant accounting policies (continued)

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks. Cash equivalents comprise short-term investments that may be readily converted into cash. Cash equivalents are not subject to the risk of significant changes in value and have an original maturity of three months or less.

The statement of cash flows has been prepared in accordance with IAS 7 "Cash Flow Statements" and has been restated for the effects of inflation, in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies." The Group relies to a significant extent on non-cash transactions. Investing activities and financing activities, as disclosed in the statement of cash flows, represent actual cash transactions. The total of operating activities also represents actual cash flow transactions from operations. However, individual items within this part of the statement of cash flows are stated inclusive of both cash and non-cash transactions. Management believes that the benefits of such information is outweighed by the cost of preparation.

Mutual settlements, barter and non-cash settlements. A significant portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. Mutual settlements, barter and non-cash settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements include “veksels” or “bills of exchange” which are negotiable debt obligations. The receivables and payables recorded in this consolidated balance sheet, that are expected to be settled by mutual settlements, barter or non-cash settlements, reflect management’s estimate of the fair value to be received or given up in non-cash settlements.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. An allowance for doubtful debtors as determined by Group management was recorded to reduce the carrying value of accounts receivable to their estimated net realisable value.

Value added tax on purchases and sales. Value added tax of 20 percent is applied to the majority of purchases and sales. Value added tax is reclaimable against current value added tax obligations upon payment and receipt of goods or services rendered. These obligations are recorded net of the reclaimed value added tax on purchases. Value added tax on purchases for which either payment has not been made or goods have not been received is recorded as an asset in the consolidated balance sheet.

Inventories. Inventories are valued at the lower of net realisable value and weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 30 June 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.

Deferred profits taxes are not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are declared. Deferred profits tax, at the current withholding tax rate of 15 percent, are provided for the undistributed earnings of associated enterprises.

Note 4: Summary of significant accounting policies (continued)

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity of the Group's subsidiaries. This has been calculated based upon the non-Group ownership percentage of these subsidiaries. Specific rights on dissolution for preference shareholders are included in the calculation of minority interests. RAO UES does not own any preference shares in subsidiaries.

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

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

Revenue Recognition. Revenue is recognised on the delivery of electricity and heat and on the despatch of non-utility goods and services through the end of the year. Revenue amounts are presented exclusive of value added taxes.

Revenue is based on the application of authorised tariffs for electricity and heat sales as approved by the regional RECs.

Earnings per share. Preference shares are considered to be participating shares as their dividend may not be less than that given to ordinary shares. Earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting year. Losses are not allocated to preference shares in this calculation.

Treasury shares. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 30 June 2000. Any gains or losses arising on the disposal of treasury shares are recorded direct to the statement of changes in shareholders' equity.

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

Seasonality. Demand for electricity and heat is influenced by both the season of the year and the relative severity or otherwise of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 5: Principal subsidiaries

The following subsidiary enterprises have been consolidated into the Group's financial statements. All subsidiaries are incorporated and operate in Russia:

Regional generation and distribution companies

Name	Ownership %	Voting %
Centre		
Astrakhanenergo	48.7	48.7
Belgorodenergo	49.0	65.3
Ivenergo	49.7	56.6
Kalugaenergo	49.0	49.0
Kostromaenergo	49.0	65.3
Kurskenergo	49.4	59.8
Lipetskenergo	49.0	49.0
Mosenergo	50.9	50.9
Nizhnovenergo	49.0	62.3
Orelenergo	49.4	60.6
Ryazanenergo	49.1	49.1
Tambovenergo	49.0	56.0
Tulaenergo	49.0	49.0
Tverenergo	49.0	65.3
Vladimirenergo	49.0	49.0
Volgogradenergo	49.0	61.3
Vologdaenergo	49.0	49.0
Voronezhenergo	49.0	65.3
Yarenergo	47.8	64.3
North-West		
Arkhenergo	49.0	59.1
Bryanskenergo	49.0	65.2
Karelenergo	100.0	100.0
Kolenergo	48.8	65.0
Komienergo	49.1	49.3
Lenenergo	49.0	57.4
Novgorodenergo	49.0	62.9
Pskovenergo	49.0	49.0
Smolenskenergo	48.7	59.3
Yantarenergo	100.0	100.0
Middle Volga		
Chuvashenergo	100.0	100.0
Marienergo	64.4	70.1
Mordovenergo	52.3	52.3
Penzaenergo	49.0	60.2
Samaraenergo	49.0	56.3
Saratovenergo	49.8	64.6
Ulyanovskenergo	49.0	65.3

Name	Ownership %	Voting %
South		
Dagenergo	51.1	51.1
Ingushenergo	49.0	49.0
Kabbalkenergo	54.7	67.8
Kalmenergo	100.0	100.0
Karachaevo-Cherkesskenergo	100.0	100.0
Kubanenergo	49.0	49.0
Rostovenergo	48.4	62.8
Sevkavkazenergo	49.0	49.0
Stavropolenergo	54.8	71.5
Ural		
Chelyabenergo	49.0	58.1
Kirovenergo	48.2	64.0
Kurganenergo	49.0	53.8
Orenburgenergo	100.0	100.0
Permenergo	49.0	64.4
Sverdlovenergo	49.0	65.3
Tumenenergo	100.0	100.0
Udmurtenergo	49.0	55.4
Siberia		
Altaienergo	54.7	72.2
Buryatenergo	48.1	48.1
Chitaenergo	49.0	62.2
Khakasenergo	100.0	100.0
Kuzbassenergo	49.0	49.0
Omskenergo	49.0	60.4
Tomskenergo	52.3	60.4
East		
Amurenergo	50.2	58.4
Dalenergo	49.0	65.3
Khabarovskenergo	49.6	61.9
Kolymaenergo	100.0	100.0
Kamchatskenergo	49.0	59.2
Magadanenergo	49.0	64.4
Sakhalinenergo	49.0	49.0

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 5: Principal subsidiaries (continued)

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Hydrogenerating companies					
Bureyskaya GES	84.6	86.6	Sulakenergo	99.3	99.3
Kabbalk GES	75.9	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.1
Taimyrenergo	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zeiskaya GES	56.5	72.5
Sayano-Shushenskaya GES	78.9	82.8	Zelenchugskie GES	71.9	71.9
Thermal generating companies					
Berezovskaya GRES –1	100.0	100.0	Novocherkasskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	Pechorskaya GRES	51.0	51.0
Gusinoozerskaya GRES	100.0	100.0	Permskaya GRES	100.0	100.0
Konakovskaya GRES	51.0	51.0	Ryazanskaya GRES	100.0	100.0
Kostromskaya GRES	51.0	51.0	Stavropolskaya GRES	51.0	51.0
Krasnoyarskaya GRES –2	100.0	100.0	Troitskaya GRES	100.0	100.0
Kuban GRES	79.8	99.9	North-West Station	54.6	60.5
Kaliningradskaya TETS-2	86.1	86.1	ZAO Lutek	56.3	56.3
Nevinomysskaya GRES	100.0	100.0	Shekinskie PGU	92.1	98.9
Construction companies					
Cherkeigesstroi	100.0	100.0	Sevkavgidroenergostroi	100.0	100.0
Zeyagesstroi	100.0	100.0	Boguchangesstroi	55.5	60.1
Other					
Central Despatch Centre	100.0	100.0			

Differences between ownership interest and voting interest normally represent the effect of preference shares. RAO UES does not hold any preference shares within its subsidiaries. Such preference shares do not have any voting rights, unless their dividend is not paid. These voting rights exist until the preference dividend arrears are paid.

RAO UES holds voting interest of 71.6 percent in Grozenergo. This entity is situated in the City of Grozny in the Chechen Republic. Currently, the Republic is experiencing a time of social upheaval and military intervention. RAO UES holds voting interests of 31.7 percent in Biskaya TETS. This entity has been placed in receivership as a consequence of bankruptcy proceedings. RAO UES no longer has control or significant influence over the above two entities and, accordingly, they have been accounted for as Other investments and carried at cost.

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

Note 5: Principal subsidiaries (continued)

RAO UES has not paid in full for its interest in Yakutskenergo. The Group has recognised a liability of RR 1,847 million (year ended 31 December 1999: RR 1,847 million) in respect of this obligation, which is the estimated fair value of consideration to be paid and is included within accrued liabilities and other creditors.

During the first six months of 2000 the Group regained control over its subsidiary Kuzbassenergo. Previously this entity was recorded as a cost investment. From 15 March 2000 this entity has been consolidated into the Group at fair value. As a consequence of regaining control over Kuzbassenergo a surplus of RR 4,272 million, being the difference between the Group's share of net assets and the cost of investment, has been reflected within Other expenses, net in the statement of operations.

RAO UES transferred 2 thermal power stations to Mosenergo in exchange for shares in a new share issue. As a result RAO UES increased both its ownership and voting interest in Mosenergo from 47.5 percent to 50.9 percent. A surplus of RR 1,243 million, being the difference between the increase in the Group's share of the net assets of Mosenergo and the cost of the thermal power station transferred, was reflected with the statement of changes in shareholders' equity.

Note 6: Segment information

Primary reporting segments - business segments The Group is organised into four main business segments, this classification is consistent with the disclosure in the prior year's consolidated financial statements.

- ***"RAO UES segment"*** consists of RAO UES and CDC. As disclosed in Note 1 this segment maintains and operates the high voltage electricity transmission grid, three power stations and controls the wholesale energy market. RAO UES also participates in joint ventures with energos and other entities to construct new power stations, these are included within this segment. As a consequence of the inclusion of these additional entities, this segment does not equal the amounts in the IAS financial statements of the parent company;
- ***"Energos segment"*** consists of regional electricity & heat generation and distribution. The majority of electricity generated by energos is sold within the regions in which the energo operates at tariffs set by REC. Certain energos have surplus generation and sell electricity to the wholesale energy market. Tariffs in the wholesale energy markets are set by the FEC;
- ***"Hydro and thermal generating stations segment"*** consists of entities that sell electricity to energos through the wholesale energy market, tariffs are set by the FEC; and
- ***"Construction segment"*** consists of construction entities.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 6: Segment information (continued)

Six months ended 30 June 2000	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	11,248	126,622	13,599	120	-	151,589
Inter-group revenues	(7,407)	(1,681)	(10,184)	-	-	(19,272)
Total revenues	3,841	124,941	3,415	120	-	132,317
Segment result	(428)	(1,132)	(4,422)	(225)	5,895	(312)
Share of income of associate	-	32	-	-	-	32
Monetary effects	-	-	-	-	-	7,986
Income before taxation						7,706
Total tax charge						(1,867)
Net income before minority interest						5,839
Minority interest: share of net income						(812)
Net income						5,027
Capital expenditures	1,135	9,743	1,658	533	14,763	27,832
Depreciation and amortisation	4,721	13,221	1,477	55	-	19,474
Doubtful debtors expense	172	(808)	928	20	(62)	250
As at 30 June 2000						
Segment total assets	253,693	547,367	93,657	6,366	(145,847)	755,236
Associates	-	11,751	-	106	-	11,857
Total assets	253,693	559,118	93,657	6,472	(145,847)	767,093
Segment liabilities	45,280	243,196	47,439	2,383	(31,492)	306,806
As at 31 December 1999						
Segment total assets	256,772	539,353	86,314	6,364	(146,875)	741,928
Associates	-	11,923	-	106	-	12,029
Total assets	256,772	551,276	86,314	6,470	(146,875)	753,957
Segment liabilities	44,147	243,539	45,447	3,078	(32,897)	303,314

Secondary reporting segments - geographical segments The Group operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. Group entities have been aggregated within these geographical areas based on the area where their assets are located, with the exception of the RAO UES segment. The transmission grid, owned by RAO UES, is located throughout the territory of the Russian Federation but is recorded in the books of RAO UES. Accordingly it is not practicable to split the assets of RAO UES on a geographical basis.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 6: Segment information (continued)

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

	Revenues	Total assets		Capital expenditures
	Six months ended 30 June 2000	30 June 2000	31 December 1999	Six months ended 30 June 2000
RAO UES segment	11,248	253,693	256,772	1,135
Centre	43,568	211,574	217,190	3,523
North-West	14,336	59,042	59,347	1,659
Urals	34,179	153,342	154,715	2,171
Siberia	14,596	75,925	59,709	1,568
Mid-Volga	11,645	46,818	45,952	906
East	11,731	65,149	62,441	1,219
South	10,286	47,397	44,706	888
	151,589	912,940	900,832	13,069
Consolidation adjustments	(19,272)	(145,847)	(146,875)	14,763
Total	132,317	767,093	753,957	27,832

Note 7: Related Parties

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

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

During the six months ended 30 June 2000, EEK was involved in financing, facilitating mutual and non-cash settlements, and investment activities with UES Group entities. The commission paid on these transactions was not material.

EEK also controls and has significant influence in a number of companies ("the EEK Group") which provide a wide range of services to the UES Group. The nature of these services, and the size of transactions with UES Group entities in the six months ended 30 June 2000, include supplying coal (six months ended 30 June 2000: RR nil million; year ended 31 December 1999: RR 433 million), insurance services (six months ended 30 June 2000: RR 194 million; year ended 31 December 1999: RR 652 million), discounting bills of exchange (six months ended 30 June 2000: RR nil million; year ended 31 December 1999: RR 3 million) and other services (six months ended 30 June 2000: RR 2 million; year ended 31 December 1999: RR nil million). A number of these transactions are not transacted on an arm's length basis. The balances outstanding due to the EEK Group from the UES Group were approximately RR 555 million and RR 1,267 million as at 30 June 2000 and 31 December 1999, respectively. The balance outstanding due to the UES Group from the EEK Group was approximately RR 3 million and RR 16 million as at 30 June 2000 and 31 December 1999, respectively.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 7: Related Parties (continued)

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

	Six months ended 30 June 2000
Electricity revenues	374
Purchased power	450
Transmission fee income	529
Rental fee income	21

Compensation paid to members of the management board is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to Russian statutory financial statements. Additional fees, compensation and allowances may be paid to members of the management board. Compensation is approved by the board of directors.

Compensation paid to members of the board of directors is in accordance with an internal regulation on the remuneration of the board of directors.

Note 8: Property, plant and equipment

	Electricity and Heat Generation	Electricity Transmission	Electricity distribution	Heating networks	Construction in Progress	Other	Total
Appraised value / cost							
Opening balance as at 31 December 1999	423,237	138,708	440,169	77,458	173,813	137,754	1,391,139
Additions	192	2	124	5	11,679	1,067	13,069
Additions through acquisitions of subsidiaries	7,695	-	4,014	1,358	468	1,228	14,763
Transfers	1,979	771	1,383	329	(5,954)	1,492	-
Disposals	(812)	(66)	(1,160)	(131)	(2,909)	(2,461)	(7,539)
Closing balance as at 30 June 2000	432,291	139,415	444,530	79,019	177,097	139,080	1,411,432
Accumulated depreciation							
Opening balance as at 31 December 1999	(255,604)	(62,052)	(296,279)	(48,186)	(76,645)	(80,746)	(819,512)
Charge for the six months ended 30 June 2000	(5,689)	(2,846)	(4,855)	(1,491)	-	(4,593)	(19,474)
Disposals	453	36	900	102	1,636	1,554	4,681
Transfers	(873)	(340)	(610)	(145)	2,626	(658)	-
Closing balance as at 30 June 2000	(261,713)	(65,202)	(300,844)	(49,720)	(72,383)	(84,443)	(834,305)
Net book value as at 31 December 1999	167,633	76,656	143,890	29,272	97,168	57,008	571,627
Net book value as at 30 June 2000	170,578	74,213	143,686	29,299	104,714	54,637	577,127

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 8: Property, plant and equipment (continued)

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

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

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into production, including generating stations under construction. Many of these construction projects are joint ventures between RAO UES and energos or other third parties, each party contributing cash and assets to the venture. Where the Group owns a majority of the venture, the full carrying value of the project is included in construction in progress. The non-Group ownership interest is recorded as minority interests. Upon completion of these projects a legal entity is normally formed with ownership generally being in proportion to amounts contributed to the venture. When construction projects are completed the cost of these products, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

Depreciation is charged once an asset is available for service.

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

A significant portion of fixed asset additions have been settled through mutual settlement, barter and other non-cash means.

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

	Six months ended 30 June 2000
Non-cash acquisitions	10,444
Non-cash proceeds from the sale of property, plant and equipment	1,989

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

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

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 8: Property, plant and equipment (continued)

As a result of the above, management reassessed the recoverability of property, plant and equipment as at 31 December 1998. Value in use of cash generating units have been estimated through a review of estimated future discounted cash flows. Management consider that individual subsidiaries represent cash generating units. Real discount rates approximating to 27 percent reducing over time to 9 percent have been used to discount these future cash flows. Based upon this reassessment, management recorded an impairment loss of RR 716,683 million as at 31 December 1998 related to the IAS carrying value of the Group property, plant and equipment.

For the six months ended 30 June 2000, management have assessed the adequacy of its existing impairment provision and concluded that the amount reflected in the 1998 financial statements is still appropriate. No further adjustment has been recorded. The cumulative impairment provision included within the accumulated depreciation balance as at 30 June 2000 is RR 702,480 million.

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

Note 9: Investments in associates

The Group has investments in the following associated enterprises that have been accounted for under the equity method in the consolidated financial statements based upon the percentage of ownership held by the RAO UES Group in such enterprises. All associated enterprises are incorporated and operate in Russia.

	31 December 1999		30 June 2000	
Enterprise name	**% Ownership**	**% Voting**	**% Ownership**	**% Voting**
Bashkirenergo	21.3	22.3	21.3	22.3
Krasnoyarskenergo	51.0	32.9	51.0	32.9
Yakutskenergo	49.0	34.4	49.0	34.4
Novosibirskenergo	14.2	16.9	14.2	16.9

	Bashkir-energo	Krasnayarsk energo	Novosibirsk-energo	Yakutsk-energo	Other	Total
Carrying value as at 31 December 1998	2,155	5,446	1,226	1,417	123	10,367
Share of income/(loss) of associates	162	2,602	(77)	(380)	(15)	2,292
Share of associates tax benefit	(298)	(297)	(30)	(11)	(3)	(639)
Other	4		4		1	9
Carrying value as at 31 December 1999	2,023	7,751	1,123	1,026	106	12,029
Share of income/(loss) of associates	445	(306)	(19)	(88)	-	32
Share of associates tax charge	(106)	8	(24)	(82)	-	(204)
Other						
Carrying value as at 30 June 2000	2,362	7,453	1,080	856	106	11,857

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 9: Investments in associates (continued)

The Group's interest in associated enterprises is shown in the consolidated balance sheet at its proportion of net assets attributable to the Group at the date of transfer from the Russian Federation plus the Group's share of post-acquisition earnings and losses and other changes in the enterprise's equity, restated to equivalent purchasing power of the Russian rouble as at 30 June 2000.

Note 10: Cash and cash equivalents

	30 June 2000	31 December 1999
Cash at bank and in hand	2,939	1,460
Foreign currency accounts	92	354
	3,031	1,814

Note 11: Accounts receivable and prepayments

	30 June 2000	31 December 1999
Trade receivables (Net of allowance for doubtful debtors of RR 76,529 as at 30 June 2000 and RR 81,166 as at 31 December 1999)	72,086	68,449
Value added tax recoverable	21,085	21,671
Other receivables (Net of allowance for doubtful debtors of RR 4,007 as at 30 June 2000 and RR 3,683 as at 31 December 1999)	15,964	17,763
Advances to suppliers	10,382	10,869
Receivables from associates	2,667	2,632
Prepayments and accrued income	4,674	1,097
	126,858	122,481

Management has determined the allowances for doubtful accounts based on specific customer identification, industry payment trends and subsequent receipts and settlements. The management of the Group believe that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements. For the six months ended 30 June 2000, approximately 36% (year ended 31 December 1999: 67%) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 12: Inventories

	30 June 2000	31 December 1999
Fuel production stocks	3,553	4,203
Materials and supplies	20,219	21,553
Other inventories	5,156	3,133
	28,928	28,889

The above inventory balances are recorded net of an obsolescence provision of RR 1,140 million for the six months ended 30 June 2000 and RR 1,260 million for the year ended 31 December 1999.

Note 13: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	30 June 2000	31 December 1999
Ordinary shares	41,041,753,984	98,286	98,286
Preference shares	2,075,149,384	5,111	5,111
		103,397	103,397

The authorised number of ordinary and preference shares are 47,509,289,488, and 2,075,149,384, respectively, both with a nominal value per share of 0.5 Russian roubles. All authorised preference shares have been issued. The value of the share capital is stated in terms of the purchasing power of the Russian rouble at the consolidated balance sheet date.

Ordinary shares and preference shares Preference shares carry no voting rights except when dividends on preference shares have not been paid. Preference shares are not convertible into ordinary shares and are entitled to a minimum annual dividend of 10 percent of net statutory profit. In total the preference dividend may not be less than the ordinary dividend. In liquidation preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders then participate equally in the distribution of remaining assets with ordinary shareholders.

The statutory accounts of the parent company, RAO UES, are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis as the current year net profit. For 1999, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 2,829 million (1999: RR 2,583 million uninflated). However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly, management believes at present it would be not appropriate to disclose an amount for the distributable reserves on these financial statements.

Dividends declared on 30 June 2000 in respect of 1999 to holders of ordinary shares have been charged to the statements of charges in shareholders equity in the period. No dividend has been declared in respect to this interim period.

On 7 May 1998 the law number 74-FZ "On the Peculiarities of Share Distribution of UES" was signed by the President of the Russian Federation. This law stipulates that a minimum of 51.0 percent of voting shares in RAO UES be held by the government of the Russian Federation and that foreign investors are limited to owning not more than 25.0 percent of the voting shares of the company. The practical implications of this foreign ownership limitation for the Company or its shareholders are unclear.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 13: Shareholders' equity (continued)

Treasury shares. Treasury shares as at 30 June 2000 represent 400,896,194 (31 December 1999: 395,528,447) ordinary and 17,253,838 (31 December 1999:14,899,736) preference shares purchased and held by the Group, at cost.

The Group periodically purchases and sells such treasury shares.

	Cost as at 31 December 1999	Purchases in the period	Disposals in the period	Cost as at 30 June 2000
Ordinary shares	452	20	-	472
Preference shares	35	5	-	40
	487	25	-	512

Note 14: Minority interests

	Six months ended 30 June 2000
Opening balance	125,858
Share of net income	812
Acquisitions (Note 5)	3,435
Dividends	(234)
Closing balance	129,871

Note 15: Deferred profits tax

Most members of the Group are subject to profits tax rates of 30 percent (before 1 April 1999: 35 percent) on taxable profits. Some members of the Group operate in regions that have reduced profits tax rates. In the context of Russian tax legislation tax losses in different Group companies may not be relieved against taxable profits of other Group companies. Accordingly taxes may accrue even where there is a net consolidated tax loss.

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

	Six months ended 30 June 2000
Income before taxation	(7,706)
Theoretical tax charge at an average statutory tax rate of 30% thereon	(2,312)
Tax effect of items which are not deductible or assessable for taxation purposes:	
Income which is exempt from taxation	2,621
Non-deductible expenses	(5,776)
Non-temporary elements of monetary gains / losses	(13,493)
Doubtful debtors expense	(75)
Tax interest and penalties	(1,825)
Inflation effect on deferred tax balance at beginning of the year	5,730
Non-recognised deferred tax movements	6,527
Other	6,736
Total tax charge	(1,867)

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 15: Deferred profits tax (continued)

The non-temporary impact of monetary gains and losses reflects the effect on the theoretical tax charge of inflation with respect to non-monetary items of a non-temporary nature.

Differences between IAS and Russian statutory taxation regulation give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 30%.

Deferred profits tax liability	30 June 2000	Deferred tax on changes in Group	Movement for the period	31 December 1999
Trade receivables	7,111	-	1,802	5,309
Property, plant and equipment	55,007	1,526	(2,387)	55,868
Accounts payable	(85)	-	54	(139)
Inventories	(404)	-	(130)	(274)
Other	2,202	-	(2,829)	5,031
	63,832	1,526	(3,489)	65,795

Deferred profits tax asset	30 June 2000	Deferred tax on changes in Group	Movement for the period	31 December 1999
Trade receivables	(372)	-	283	(655)
Property, plant and equipment	15,600	-	(7,130)	22,730
Accounts payable	40	-	(183)	223
Inventories	46	-	122	(76)
Other	737	-	374	363
	16,051	-	(6,534)	22,585
Less non-recognised deferred tax asset	(16,051)	-	6,534	(22,585)
	-	-	-	-

A deferred profits tax asset has not been recognised for the Group's unused profits tax losses either as at 30 June 2000 or 31 December 1999.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 16: Non-current debt

	Currency	Interest rate	Due	30 June 2000	31 December 1999
Bank debt in Russian banks	RR	0% – 20%	2000 and thereafter	369	157
Bank debt in Russian banks	Hard currency	0% – 20%	2000 and thereafter	158	197
Bank debt in Russian banks	RR	21%-40%	2000 and thereafter	680	11
Bank debt in Russian banks	RR	> 40%	2000 and thereafter	533	432
Eurobond	US Dollars	8.4%	2002	4,358	4,740
Bonds - RAO UES	RR*	5%	2002	3,000	1,076
Bonds - Energos	RR	8%	2003	1,077	-
Central government loans	RR	0% – 20%	2000 and thereafter	2,317	2,221
Central government loans	RR	21% – 40%	2000 and thereafter	249	573
Central government loans	RR	> 40%	2000 and thereafter	327	372
Regional government loans	RR	0% – 20%	2000 and thereafter	173	245
Regional government loans	RR	21% – 40%	2000 and thereafter	9	-
Foreign banks	US Dollars	0% – 20%	2000 and thereafter	1,123	2,703
Other long-term debt				1,221	951
Total non-current debt				15,594	13,678
Less: current portion of non-current debt				(5,368)	(6,546)
Total				10,226	7,132

*In December 1999 and February 2000 RAO UES issued bonds at 5.0 percent coupon for RR 3,000 million. These bonds were issued at a discount of 5.75 percent, equal to RR 172 million. This discount is recorded as a deferred interest expense on the balance sheet and is to be released to interest expense in the statement of operations evenly over the life of the bond. For both interest payments and the redemption of these bonds the Russian rouble amount is adjusted to reflect any currency movements between the Russian rouble and the US$ from the date of issuance of the bonds.

Maturity Table	30 June 2000	31 December 1999
Due for re-payment		
Between one and two years	278	128
Between two and five years	9,352	6,463
After 5 years	596	541
	10,226	7,132

The majority of the Group's current and non-current debt is evidenced by veksels given by the Group entities that obtained the loan. The majority of the above debt is obtained at a variable interest rate.

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

	Interest rate	30 June 2000	31 December 1999
Current debt	0-20%	2,425	3,435
Current debt	21-40%	1,336	401
Current debt	>40%	282	2,355
Current portion of non-current debt		5,368	6,546
		9,411	12,737

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 18: Accounts payable and accrued charges

	30 June 2000	31 December 1999
Trade payables	103,506	103,261
Bills of exchange payable	3,448	3,827
Payables to associates	556	403
Dividends payable	1,447	835
Accrued liabilities and other creditors	17,367	19,842
	126,324	128,168

In the six months ended 30 June 2000, approximately 50% (year ended 31 December 1999: 71%) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Note 19: Taxes payable

Taxes payable consists of the following:

	30 June 2000	31 December 1999
Value added tax	32,716	30,228
Fines and interest	29,415	25,336
Turnover taxes	11,709	11,480
Employee taxes	6,408	6,438
Profits tax	5,940	4,901
Property tax	2,154	1,674
Other taxes	5,677	4,897
	94,019	84,954

Included within value added tax payable is RR 14,133 million in as of 30 June 2000 and RR 14,131 million as at 31 December 1999 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 2,934 million as at 30 June 2000 and RR 4,329 million as at 31 December 1999 of turnover taxes that are only payable to the tax authorities when the underlying receivable balance is recovered.

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

For the six months ended 30 June 2000, approximately 40% (year ended 31 December 1999: 62%) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 20: Governmental assistance

During the six months ended 30 June 2000 the Federal government of the Russian Federation and regional government gave financial assistance equal to RR 868 million for certain entities in the Far East region and RR 103 million for other Group entities. This assistance in respect of the first six months of 2000 has been credited to the statement of operations fully in the period.

(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 30 June 2000)

Note 21: Earnings per share

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

	Six months ended 30 June 2000
Weighted average number of ordinary shares outstanding (thousands)	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149
Adjusted for weighted average number of treasury shares, both preference and ordinary (thousands)	(414,844)
Weighted average number of ordinary and preference shares in issue (thousands)	42,702,059
Net income	5,027
Weighted average number of ordinary and preference shares in issue (thousands)	42,702,059
Basic income per ordinary and preference share, Russian rouble	0.12

Note 22: Commitments

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements for 1 July 2000 onwards in excess of amounts contracted will be purchased through short term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

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

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 21,774 million at 30 June 2000, and RR 23,553 million at 31 December 1999.

Note 23: Contingencies

Political environment. The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia. Due to the capital intensive nature of the industry, Group entities are also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable. These matters could have material effects on the operations of the Group.

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

Note 23: Contingencies (continued)

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

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

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

Note 24: Financial Instruments

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded, except as a result of the uncertainty arising from the financial crisis in Russia.

Foreign exchange risk. The Group primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Group's purchases are denominated in Russian roubles. The major concentration of foreign exchange risk is in relation of US Dollar denominated debt, as disclosed in Note 16.

Interest rate risk. As discussed in Note 16 the majority of interest rates on debt are variable. Interest rates on rouble denominated debt is reset when the underlying Central Bank re-financing rate changes. The Central Bank re-financing rate has fluctuated significantly during the year. The interest rate on the Eurobond of US $200 million is fixed at 8.4 percent. Assets are generally non-interest bearing.

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