

RAO UES GROUP
IAS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2000

AUDITOR'S REPORT

To the Shareholders and Board of Directors of the Russian Joint Stock Company Unified Energy System of Russia ("RAO UES")

1. We have audited the accompanying consolidated balance sheet of RAO UES and its subsidiaries (hereinafter referred to as the "Group") as at 31 December 2000 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements, set out at pages 1 through 29, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2000 and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.
4. Without further qualifying our opinion, we draw attention to Note 2. The financial statements have been prepared in accordance with accounting policies based on the Group being a going concern. As at 31 December 2000 the Group's current liabilities exceeded its current assets by RR 71,138 million (31 December 1999: RR 76,681 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 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

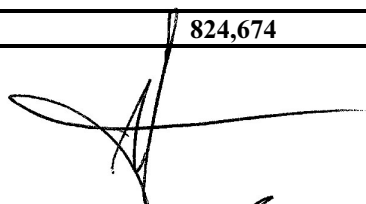
RAO UES Group

Consolidated Balance Sheet as at 31 December 2000

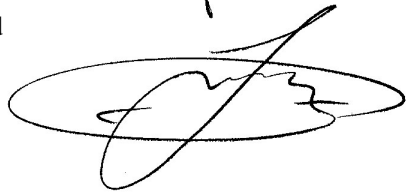
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Notes	31 December 2000	31 December 1999
Assets			
Non-current assets			
Property, plant and equipment	8	652,883	626,890
Investments in associates	9	3,765	13,192
Other investments		11,312	13,238
Other non-current assets	24	8,078	2,513
Total non-current assets		676,038	655,833
Current assets			
Cash and cash equivalents	10	7,603	1,989
Accounts receivable and prepayments	11	100,018	134,322
Inventories	12	34,437	31,682
Other current assets		6,578	3,020
Total current assets		148,636	171,013
Total assets		824,674	826,846
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	13		
Ordinary shares (nominal value RR 20,521 millions)		107,788	107,788
Preference shares (nominal value RR 1,038 millions)		5,605	5,605
Treasury shares		(558)	(535)
		112,835	112,858
Retained earnings and other reserves		244,762	243,326
Total shareholders' equity		357,597	356,184
Minority interests	14	149,755	138,026
Non-current liabilities			
Deferred profits tax liabilities	15	80,529	72,156
Non-current debt	16	13,334	7,822
Other non-current liabilities		3,685	4,964
Total non-current liabilities		97,548	84,942
Current liabilities			
Current debt and current portion of non-current debt	17	11,808	13,969
Accounts payable and accrued charges	18	114,640	140,559
Taxes payable	19	93,326	93,166
Total current liabilities		219,774	247,694
Total shareholders' equity and liabilities		824,674	826,846

Chairman of the Management Board

 Chubais A. B.

First Deputy Chairman of the Management Board

 Melamed L. B.

20 August 2001

RAO UES Group

Consolidated 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			
Electricity		211,812	176,662
Heating		53,965	51,942
Transmission fees		2,147	2,553
Governmental assistance	20	3,108	2,383
Other		24,880	26,442
Total revenues		295,912	259,982
Costs and other deductions			
Fuel expenses		84,896	75,338
Depreciation and amortisation	8	42,588	39,727
Wages and payroll taxes		44,931	39,245
Taxes other than income		20,335	30,186
Purchased power		28,196	22,502
Doubtful debtors expense		1,628	1,622
Repairs and maintenance		21,396	19,916
Other materials		15,657	26,361
Loss on disposal of fixed assets and investments		388	4,089
Social expenditures		5,002	4,773
Other expenses, net	5	22,917	24,397
Total costs and other deductions		287,934	288,156
Income / (loss) from operations		7,978	(28,174)
Share of (loss) / income of associates	9	(921)	2,513
Income / (loss) before monetary effects and taxation		7,057	(25,661)
Monetary gain	3	15,306	28,819
Interest expense		(2,692)	(3,801)
Foreign exchange loss		(641)	(3,229)
Income / (loss) before taxation		19,030	(3,872)
Current profits tax charge		(14,020)	(9,284)
Deferred profits tax charge	15	(2,775)	(14,326)
Share of associate tax charge	9	(1,283)	(700)
Total tax charge	15	(18,078)	(24,310)
Income / (loss) before minority interest		952	(28,182)
Minority interest: share of net result	14	(459)	16,336
Net income/(loss)		493	(11,846)
Earnings/ (loss) per share – basic and diluted (in Russian roubles)	21	0.01	(0.29)

Chairman of the Management Board

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20 August 2001

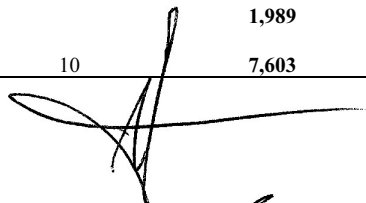
RAO UES Group

Consolidated Statement of Cash Flows for the year ended 31 December 2000

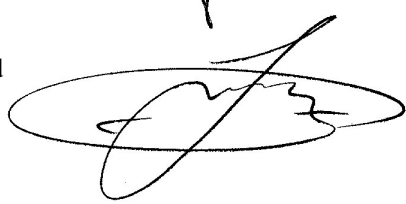
(in millions of Russian roubles expressed in terms of the purchasing power of the Russian rouble as at 31 December 2000)

	Notes	Year ended 31 December 2000	Year ended 31 December 1999
CASH FLOW FROM OPERATING ACTIVITIES:			
	4		
Income / (loss) before taxation		19,030	(3,872)
Adjustments to reconcile income before taxation to net cash provided by operations:			
Depreciation and amortisation		42,588	39,727
Doubtful debtors expense		1,628	1,622
Interest expense		2,692	3,801
Share of loss / (income) of associates		921	(2,513)
Loss on disposal of fixed assets and investments		388	4,089
Monetary and unrealised foreign exchange effects on non-operating balances		(3,423)	(4,808)
Adjustment for non-cash investing activities		(35,543)	(32,714)
Other		4	(12)
Operating income before working capital changes		28,285	5,320
Decrease in accounts receivable and prepayments		32,677	31,008
Increase in other current assets		(3,558)	(634)
(Increase) / decrease in inventories		(2,754)	11,462
Decrease in accounts payable and accrued charges		(27,017)	(44,586)
(Decrease) / increase in taxes payable other than profits tax		(1,644)	3,015
(Decrease) / increase in other non-current liabilities		(1,280)	3,652
Profits tax paid/non-cash		(2,199)	(6,047)
Profits tax paid/cash		(10,018)	(3,707)
Net cash provided by / (used for) operating activities		12,492	(517)
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	8	(5,070)	(4,585)
Proceeds from sale of property, plant and equipment		916	2,281
Net (additions) / disposals to / from investments		(363)	384
Net additions to other non-current assets		(4,694)	(90)
Net cash used for investing activities		(9,211)	(2,010)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		42,449	8,617
Proceeds from issuance of non-current debt		8,373	4,197
Reduction of loans		(46,767)	(12,703)
Effect of inflation on financing activities		3,652	5,722
Interest paid		(2,701)	(2,003)
Dividends paid		(1,718)	(592)
Proceeds from sale of treasury shares		2	15
Purchase of treasury shares		(25)	(56)
Net cash provided by financing activities		3,265	3,197
Effect of inflation on cash and cash equivalents		(932)	(592)
Increase in cash and cash equivalents		5,614	78
Cash and cash equivalents at the beginning of year		1,989	1,911
Cash and cash equivalents at the end of year	10	7,603	1,989

Chairman of the Management Board


Chubais A. B.

First Deputy Chairman of the Management Board


Melamed L. B.

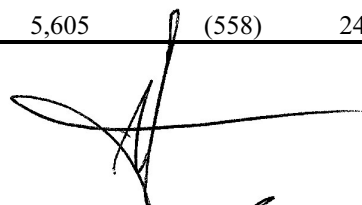
20 August 2001

RAO UES Group**Consolidated Statement of Changes in Shareholders' Equity for 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)

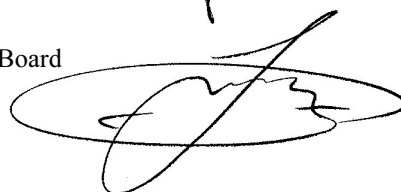
	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 1999	107,788	5,605	(507)	255,569	368,455
Net loss	-	-	-	(11,846)	(11,846)
Dividends	-	-	-	(384)	(384)
Purchase of treasury shares, net	-	-	(28)	(13)	(41)
At 31 December 1999	107,788	5,605	(535)	243,326	356,184
At 1 January 2000	107,788	5,605	(535)	243,326	356,184
Net income	-	-	-	493	493
Dividends	-	-	-	(677)	(677)
Other (Note 5)	-	-	-	1,620	1,620
Purchase of treasury shares, net	-	-	(23)	-	(23)
At 31 December 2000	107,788	5,605	(558)	244,762	357,597

Chairman of the Management Board



Chubais A. B.

First Deputy Chairman of the Management Board



Melamed L. B.

20 August 2001

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

RAO UES Group

Notes to the Consolidated Financial Statements 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)

Note 1: The Group and its operations

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

The RAO UES Group (hereinafter referred to as the "Group") consists of RAO UES and its related subsidiaries and associates as at 31 December 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").

The Group performs the following major activities:

High voltage network: The high voltage network connects all but two regions of the Russian Federation. RAO UES maintains this network and charges a fee to users of the network. The Central Despatch Centre ("CDC"), a 100 percent owned subsidiary of RAO UES, is responsible for system despatch and the Federal Wholesale Market of Electricity and Capacity ("FOREM");

Regional generation and distribution: RAO UES has ownership interest in more than 70 regional generation and distribution companies ("energос"). These ownership interests range from 14.2 percent to 100 percent; and

Electricity large generation: Major generation stations produce electricity and sell it direct to FOREM. The majority of these sales are within the Group.

The Russian Federation Government Resolution No 526 dated 11 July 2001 approved guidelines for reform of the Russian utilities, and specified further steps relating to industry reform and, specifically reform of the Group. The Government Directive 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.

At 31 December 2000, the number of employees of the Group was approximately 681,000 (31 December 1999: 664,000).

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

RAO UES also prepares annual parent company stand-alone financial statements in accordance with International Accounting Standards ("IAS").

Relations with the state. At 31 December 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.

RAO UES Group

Notes to the Consolidated Financial Statements 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)

Note 1: The Group and its operations (continued)

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and 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 31 December 2000, the Group's current liabilities exceeded its current assets by Russian roubles ("RR") 71,138 million (31 December 1999: RR 76,681 million). The Group continues to experience difficulties settling its tax liabilities, paying trade creditors and meeting debts as they fall due. Certain Group entities are currently defending claims from creditors made against them in Arbitration Courts. In addition, two Group entities are currently in receivership. The total net assets of these two entities as at 31 December 2000 amount to RR 484 million. They have been treated as investments and are carried at cost, as disclosed in Note 5.

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

The Group continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales and the cash content within these settlements. Despite this success there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling the Group to cut off non-payers, but this 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;
- onerous currency controls;
- a low level of liquidity in the public and private debt and equity markets;
- persistent high inflation.

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

RAO UES Group

Notes to the Consolidated Financial Statements 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)

Note 2: Going concern (continued)

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

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

Note 3: Basis of presentation

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RAR. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention method except for revaluations of property, plant and equipment (see Note 4), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee.

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

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

The conversion factors are derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics (Goscomstat), and from indices obtained from other published sources for years prior to 1992. The index used to restate the balance sheet, based on 1988 prices, (1988 = 100) as at 31 December 2000 under respective conversion factors is:

RAO UES Group

Notes to the Consolidated Financial Statements 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)

Note 3: Basis of presentation (continued)

<u>Date</u>	<u>Indices</u>	<u>Conversion Factor</u>
31 December 1996	594,110	3.36
31 December 1997	659,403	3.03
31 December 1998	1,216,400	1.64
31 December 1999	1,661,481	1.20
31 December 2000	1,995,909	1.00

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 4, property, plant and equipment is stated at amounts based upon an independent appraisal performed as at 31 December 1997. Furthermore, as discussed in Note 4, management assesses the recoverability of property, plant and equipment. The appraisal values and the impact of any impairment have been restated by applying relevant conversion factors together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- other non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 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 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 15,306 million for the year ended 31 December 2000 (RR 28,819 million for the year ended 31 December 1999) because on average the Group had net monetary liabilities during this period. Since 31 December 2000, inflation has continued. As at 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

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 significant majority of principal subsidiary companies described in Note 5 were transferred to RAO UES by the Russian Federation on and after its incorporation into a joint stock company. These transfers represented a reorganisation of assets under 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.

RAO UES Group

Notes to the Consolidated Financial Statements 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)

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 the Russian rouble at 31 December 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 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 transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian rouble and the US Dollar at 31 December 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.

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.

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

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

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

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

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

RAO UES Group

Notes to the Consolidated Financial Statements 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)

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 providing individual cash items within operating activities is outweighed by the cost of preparation.

Mutual settlements, barter and non-cash settlements. A portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements include "veksels" or "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 accounts as determined by Group management is recorded to reduce the carrying value of accounts receivable to their estimated net realisable value.

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

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

RAO UES Group

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(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)

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 where there is a present obligation, the outflow is probable and reliable estimate exists.

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.

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.

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

Treasury shares. Treasury shares are stated at weighted average cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 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 2000, with the exception of IAS 39 "Financial Instruments: Recognition and Measurement", have been reflected in the financial statements, as applicable to the Group.

RAO UES Group

Notes to the Consolidated Financial Statements 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)

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:

	Ownership %	Voting %	Name	Ownership %	Voting %
Regional generation and distribution companies					
<i>Centre</i>			<i>South</i>		
Astrakhanenergo	49.0	49.0	Dagenergo	51.1	51.1
Belgorodenergo	49.0	65.3	Kabbalkenergo	53.7	66.1
Ivenergo	49.7	56.6	Kalmenergo	96.4	96.4
Kalugaenergo	49.0	49.0	Karachaevo-Cherkesskenergo	100.0	100.0
Kostromaenergo	49.0	65.3	Kubanenergo	49.0	49.0
Kurskenergo	49.4	59.8	Rostovenergo	48.4	62.8
Lipetskenergo	49.0	49.0	Sevkavkazenergo	49.0	49.0
Mosenergo	50.9	50.9	Stavropolenergo	54.8	71.5
Nizhnovenergo	49.0	62.3			
Orelenergo	49.3	60.5	<i>Ural</i>		
Ryazanenergo	49.2	49.2	Chelyabenergo	49.0	58.1
Tambovenergo	49.0	56.0	Kirovenergo	48.2	64.0
Tulaenergo	49.0	49.0	Kurganenergo	49.0	53.8
Tverenergo	49.0	65.3	Orenburgenergo	100.0	100.0
Vladimirenergo	49.1	49.1	Permenergo	49.0	64.4
Volgogradenergo	49.0	61.3	Sverdlovenergo	49.0	65.3
Vologdaenergo	49.0	49.0	Tumenenergo	100.0	100.0
Voronezhenergo	49.0	65.3	Udmurtenergo	49.0	55.4
Yarenergo	47.8	64.3			
<i>North-West</i>			<i>Siberia</i>		
Arkhenenergo	49.0	59.1	Altaienergo	54.7	72.2
Bryanskenergo	49.0	65.2	Buryatenergo	47.3	47.3
Karelenenergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	65.5	Khakasenergo	100.0	100.0
Komienergo	49.0	49.2	Krasnoyarskenergo	51.7	66.3
Lenenergo	49.0	57.4	Kuzbassenergo	49.0	49.0
Novgorodenergo	49.0	62.9	Omskenergo	49.0	60.4
Pskovenergo	49.0	49.0	Tomskenergo	51.8	59.7
Smolenskenergo	48.7	59.3			
Yantarenergo	100.0	100.0	<i>East</i>		
<i>Middle Volga</i>			Amurenergo	52.8	61.9
			Dalenergo	49.0	65.3
Chuvashenergo	100.0	100.0	Khabarovskenergo	49.5	61.8
Marienergo	64.4	70.1	Kolymaenergo	83.8	83.8
Mordovenergo	53.2	53.2	Kamchatskenergo	49.0	59.2
Penzaenergo	49.0	60.2	Magadanenergo	49.0	64.4
Samaraenergo	49.5	56.7	Sakhalinenergo	49.0	49.0
Saratovenergo	49.8	64.6	Yakutskenergo	49.0	58.1
Ulyanovskenergo	49.0	65.3			

RAO UES Group

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Note 5: Principal subsidiaries (continued)

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Hydrogenerating companies					
Bureyskaya GES	83.6	85.4	Sulakenergo	99.2	99.2
Kabbalk GES	75.9	98.0	Volzhskaya GES (Volzhsk)	83.3	86.4
Kamskaya GES	100.0	100.0	Volzhskaya GES (Zhigulevsk)	85.0	88.6
Kaskad Verhnevolzhskih GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Sayano-Shushenskaya GES	78.9	82.8	Zaramagskie GES	92.5	97.3
Taimyrenego	100.0	100.0	Zeiskaya GES	56.9	72.5
			Zelenchugskie GES	69.2	69.2
Thermal generating companies					
Berezovskaya GRES -1	100.0	100.0	Nevinomysskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	North-West Station	53.5	60.5
Gusinozerskaya GRES	100.0	100.0	Novocherkasskaya GRES	100.0	100.0
Konakovskaya GRES	51.0	51.0	Pechorskaya GRES	51.0	51.0
Kostromskaya GRES	51.7	51.7	Permskaya GRES	100.0	100.0
Krasnoyarskaya GRES -2	100.0	100.0	Pskovskaya GRES	50.0	50.0
Kuban GRES	79.8	99.9	Ryazanskaya GRES	100.0	100.0
Kaliningradskaya TETS -2	86.6	86.6	Shekinskie PGU	92.1	98.9
Lutek	56.3	56.3	Stavropolskaya GRES	51.0	51.0
			Troitskaya GRES	100.0	100.0
Construction companies					
Boguchangesstroi	55.5	60.1	Cherkeigesstroi	100.0	100.0
Bureyagesstroy	100.0	100.0	Zeyagesstroi	100.0	100.0
Other					
Central Dispatch Centre	100.0	100.0	Centre of settlement optimisation	100.0	100.0
Neftianoy Dom	75.0	75.0			

Differences between ownership interest and voting interest normally represent the effect of preference shares. RAO UES does not hold any preference shares of its subsidiaries. Such preference shares do not have any voting rights, unless dividends have not been declared fully at the Annual Shareholders' meeting.

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

RAO UES Group

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

Note 5: Principal subsidiaries (continued)

RAO UES holds interests of 66.3 percent and 58.1 percent in Krasnoyarskenergo and Yakutskenergo, respectively. Since the privatisation process of the industry, RAO UES transferred, on an annual basis, part of their voting rights to the respective local governments of these regions. Through the ceding of part of its voting rights RAO UES held a reduced voting interest of 32.9 percent and 34.4 percent in Krasnoyarskenergo and Yakutskenergo, respectively and accounted for these entities as associates. As of 31 December 2000 RAO UES ceased to cede any of its voting rights and has consolidated these entities as subsidiaries as of this date.

During 2000 the Group regained control over its subsidiary Kuzbassenergo, as the result of the cessation of bankruptcy proceedings. Previously this entity was recorded as a cost investment. From 15 March 2000 this entity has been consolidated into the Group. As a consequence of regaining control over Kuzbassenergo a surplus of RR 5,280 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 in 2000 two 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 1,620 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 stations transferred, was reflected within the statement of changes in shareholders' equity.

During the year ended 31 December 2000 there were certain other changes in RAO UES' ownership percentage of several of its subsidiaries, which had an immaterial impact on the statement of operations.

Note 6: Segment information

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

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

RAO UES Group

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

Note 6: Segment information (continued)

Year ended 31 December 2000	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	25,121	285,324	32,077	1,251	-	343,773
Inter-group revenues	(17,119)	(6,173)	(24,569)		-	(47,861)
Total revenues	8,002	279,151	7,508	1,251	-	295,912
Segment result	3,507	11	(1,995)	273	6,182	7,978
Share of loss of associate	-	(921)	-		-	(921)
Monetary effects						11,973
Income before taxation						19,030
Total tax charge						(18,078)
Income before minority interest						952
Minority interest: share of net result						(459)
Net income						493
Capital expenditures	3,583	22,654	6,122	612	39,052	72,023
Depreciation and amortisation	7,537	30,627	4,347	77	-	42,588
Doubtful debtors expense	305	1,732	(378)	50	(81)	1,628
As at 31 December 2000						
Segment total assets	276,144	585,486	104,180	7,335	(152,236)	820,909
Associates	-	3,649	-	116	-	3,765
Total assets	276,144	589,135	104,180	7,451	(152,236)	824,674
Segment liabilities	47,430	250,264	46,728	2,331	(29,431)	317,322

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Note 6: Segment information (continued)

Year ended 31 December 1999	RAO UES	Energos	Hydro and thermal generating stations	Construction	Consolidation adjustments	Total
Revenues	19,632	251,956	26,307	752	-	298,647
Inter-group revenues	(11,108)	(6,336)	(20,868)	(353)	-	(38,665)
Total revenues	8,524	245,620	5,439	399	-	259,982
Segment result	3,926	(24,486)	(7,178)	(1,798)	1,362	(28,174)
Share of income of associate	-	2,530	-	(17)	-	2,513
Monetary effects						21,789
Loss before taxation						(3,872)
Total tax charge						(24,310)
Loss before minority interest						(28,182)
Minority interest: share of net result						16,336
Net loss						(11,846)
Capital expenditures	3,737	28,813	5,466	247	2,410	40,673
Depreciation and amortisation	6,107	30,303	3,232	85	-	39,727
Doubtful debtors expense	(1,651)	2,996	244	(9)	42	1,622
As at 31 December 1999						
Segment total assets	281,596	591,495	94,658	6,980	(161,074)	813,655
Associates	-	13,075	-	116	-	13,191
Total assets	281,596	604,570	94,658	7,096	(161,074)	826,846
Segment liabilities	48,414	267,083	49,840	3,376	(36,077)	332,636

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 nearly throughout the territory of the Russian Federation but is recorded in the books of RAO UES without details of geographic location. Accordingly, it is not practicable to split the assets of RAO UES on a geographical basis. The assets generate revenues primarily within the geographical region where they are located.

RAO UES Group

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Note 6: Segment information (continued)

	Revenues		Total assets		Capital expenditure	
	Year ended 31 December 2000	Year ended 31 December 1999	31 December 2000	31 December 1999	Year ended 31 December 2000	Year ended 31 December 1999
RAO UES segment	25,121	19,632	276,144	281,596	3,583	3,737
Centre	102,313	90,802	215,000	238,188	8,331	10,654
North-West	32,159	28,502	63,738	65,083	4,488	7,215
Urals	78,551	70,877	153,524	169,673	5,501	6,918
Siberia	30,983	20,611	90,265	65,482	3,152	1,956
Mid-Volga	25,096	22,957	47,651	50,395	1,890	1,902
East	24,665	25,034	79,675	68,477	3,533	2,681
South	24,885	20,232	50,913	49,026	2,493	3,200
	343,773	298,647	976,910	987,920	32,971	38,263
Consolidation adjustments	(47,861)	(38,665)	(152,236)	(161,074)	39,052	2,410
Total	295,912	259,982	824,674	826,846	72,023	40,673

Note 7: Related parties

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

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

	Year ended 31 December 2000	Year ended 31 December 1999
Electricity revenues	659	512
Purchased power	371	465
Transmission fee income	1,144	1,069
Rental fee income	37	59

Directors' compensation. Compensation is paid to members of the management board for their services in full time management positions and 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 managing board according to his perception of the value of their contribution.

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

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Note 7: Related parties (continued)

Salary and bonuses paid to members of the management board by RAO UES and its subsidiaries, included in wages and payroll taxes in the statement of operations, amounted to RR 60 million for the year ended 31 December 2000.

Note 8: Property, plant and equipment

Appraised value / cost	Electricity and Heat Generation	Electricity Transmission	Electricity distribution	Heating networks	Construction in Progress	Other	Total
Opening balance as at 31 December 1999	464,155	152,118	482,723	84,946	190,616	151,072	1,525,630
Additions	521	14	3	70	30,515	1,848	32,971
Additions through acquisitions of subsidiaries	14,412	-	13,365	2,792	3,914	4,569	39,052
Transfers	10,907	1,138	5,495	1,433	(25,934)	6,961	-
Disposals	(3,400)	(210)	(3,436)	(947)	(7,006)	(5,546)	(20,545)
Closing balance as at 31 December 2000	486,595	153,060	498,150	88,294	192,105	158,904	1,577,108
Accumulated depreciation							
Opening balance as at 31 December 1999	(280,315)	(68,050)	(324,923)	(52,844)	(84,055)	(88,553)	(898,740)
Charge for 2000	(11,216)	(5,087)	(11,936)	(2,961)	-	(11,388)	(42,588)
Disposals	2,654	49	3,554	955	4,909	4,982	17,103
Transfers	(5,826)	(608)	(2,935)	(766)	13,853	(3,718)	-
Closing balance as at 31 December 2000	(294,703)	(73,696)	(336,240)	(55,616)	(65,293)	(98,677)	(924,225)
Net book value as at 31 December 1999	183,840	84,068	157,800	32,102	106,561	62,519	626,890
Net book value as at 31 December 2000	191,892	79,364	161,910	32,678	126,812	60,227	652,883

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

Depreciation is charged once an asset is available for service.

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

RAO UES Group

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Note 8: Property, plant and equipment (continued)

A significant portion of fixed asset additions has been settled through mutual settlement, barter and other non-cash means. Non-cash transactions in respect of property, plant and equipment are:

	Year ended 31 December 2000	Year ended 31 December 1999
Non-cash acquisitions	26,048	35,813
Non-cash proceeds from the sale of property, plant and equipment	3,168	4,633

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

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 669,017 million.

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

Note 9: Investments in associates

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

Enterprise name	2000		1999	
	% Ownership	% Voting	% Ownership	% Voting
Bashkirenergo	21.3	22.3	21.3	22.3
Krasnoyarskenergo	51.7	66.3*	51.0	32.9
Yakutskenergo	49.0	58.1*	49.0	34.4
Novosibirskenergo	14.2	16.9	14.2	16.9

* As discussed in Note 5, the Group regained control over Krasnoyarskenergo and Yakutskenergo as at 31 December 2000. These two entities have been recorded as subsidiaries as of this date.

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Note 9: Investments in associates (continued)

	Bashkir- Energo	Krasnoyarsk- energo	Novosibirsk- energo	Yakutsk- energo	Other	Total
Carrying value as at 31 December 1998	2,363	5,973	1,344	1,553	136	11,369
Share of income/(loss) of associates	178	2,853	(84)	(417)	(17)	2,513
Share of associates tax charge	(327)	(326)	(32)	(12)	(3)	(700)
Other	5	-	5	-	-	10
Carrying value as at 31 December 1999	2,219	8,500	1,233	1,124	116	13,192
Share of income/(loss) of associates	596	(615)	(137)	(765)	-	(921)
Share of associates tax charge	(230)	(857)	(32)	(164)	-	(1,283)
Transfer to subsidiaries (Note 5)	-	(7,028)	-	(195)	-	(7,223)
Carrying value as at 31 December 2000	2,585	-	1,064	-	116	3,765

The Group's interest in associated enterprises is shown in the consolidated balance sheet at its proportion of net assets attributable to the Group at the date of transfer from the Russian Federation plus the Group's share of post-acquisition earnings and losses and other changes in the enterprise's equity, restated to equivalent purchasing power of the Russian rouble as at 31 December 2000.

Note 10: Cash and cash equivalents

	31 December 2000	31 December 1999
Cash at bank and in hand	6,361	1,601
Cash equivalents	1,161	-
Foreign currency accounts	70	388
Restricted cash	11	-
	7,603	1,989

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

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Note 11: Accounts receivable and prepayments

	31 December 2000	31 December 1999
Trade receivables (Net of allowance for doubtful amounts of RR 77,223 as at 31 December 2000 and RR 89,013 as at 31 December 1999)	53,206	75,066
Value added tax recoverable	18,438	23,767
Other receivables (Net of allowance for doubtful debtors of RR 6,504 as at 31 December 2000 and RR 4,039 as at 31 December 1999)	14,019	19,480
Advances to suppliers	12,648	11,919
Receivables from associates	924	2,887
Prepayments and accrued income	783	1,203
	100,018	134,322

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 year ended 31 December 2000, approximately 23% (year ended 31 December 1999: 67%) of the settlements of the Group's accounts receivables and prepayments were made via non-cash settlements.

Note 12: Inventories

	31 December 2000	31 December 1999
Fuel production stocks	7,670	4,609
Materials and supplies	24,854	23,637
Other inventories	1,913	3,436
	34,437	31,682

The above inventory balances are recorded net of an obsolescence provision of RR 1,770 million for the year ended 31 December 2000 and RR 1,381 million for the year ended 31 December 1999.

Note 13: 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 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.

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Note 13: Shareholders' equity (continued)

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

The 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 2000, the statutory profit for the parent company, RAO UES, as reported in the published annual statutory reporting forms, was RR 6,413 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 in these financial statements.

A dividend was declared in 2001 in respect of 2000 of RR 0.0200 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: 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 represent 400,442,692 (31 December 1999: 395,528,447) ordinary shares and 17,540,420 (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 2000	Purchases / disposals, net	Cost as at 31 December 1999
Ordinary shares	514	18	496
Preference shares	44	5	39
	558	23	535

Note 14: Minority interests

	Year ended 31 December 2000	Year ended 31 December 1999
Opening balance	138,026	153,771
Share of net result	459	(16,336)
Acquisitions (Note 5)	11,565	863
Dividends	(295)	(272)
Closing balance	149,755	138,026

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Note 15: Deferred profits tax

Most members of the Group were subject to profits tax rates of 30 percent on taxable profits for 2000. From 1 January 2001 in many, but not all regions, the profits tax rate was increased to 35 percent of 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:

	Year ended 31 December 2000	Year ended 31 December 1999
Income / (loss) before taxation	19,030	(3,872)
Theoretical tax (charge) / benefit at an average statutory tax rate of 30% thereon	(5,709)	1,162
Tax effect of items which are not deductible or assessable for taxation purposes:		
Net non-deductible expenses	(4,448)	907
Non-temporary elements of monetary gains / losses	(28,472)	(46,719)
Doubtful debtors expense	(758)	(347)
Tax interest and penalties	(1,136)	(7,793)
Inflation effect on deferred tax balance at beginning of the year	12,091	15,834
Temporary difference in statutory revaluation of tax base	14,480	(1,390)
Non-recognised deferred tax assets movements	10,009	10,855
Effect of (increase) / reduction in tax rate	(11,293)	6,333
Other	(2,842)	(3,152)
Total tax charge	(18,078)	(24,310)

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 (e.g. shareholders' equity, minority interests and deferred profits tax liabilities).

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 35 percent for most Group members (1999: 30 percent).

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Note 15: Deferred profits tax (continued)

Deferred profits tax liability	31 December 2000	Changes in the Group	Movement for the year	Change in tax rate	31 December 1999
Trade receivables	6,835	143	(107)	976	5,823
Property, plant and equipment	74,887	5,150	(2,043)	10,511	61,269
Accounts payable	(205)	(7)	(16)	(29)	(153)
Inventories	(723)	(39)	(281)	(103)	(300)
Other	(265)	351	(6,071)	(62)	5,517
	80,529	5,598	(8,518)	11,293	72,156

Deferred profits tax asset	31 December 2000	Changes in the Group	Movement for the year	Change in tax rate	31 December 1999
Trade receivables	3	(42)	763	-	(718)
Property, plant and equipment	16,721	2,672	(13,234)	2,356	24,927
Accounts payable	63	-	(191)	9	245
Inventories	72	27	118	10	(83)
Other	643	86	68	92	397
	17,502	2,743	(12,476)	2,467	24,768
Less non-recognised deferred tax asset	(17,502)	(2,743)	12,476	(2,467)	(24,768)
	-	-	-	-	-

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

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

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Note 16: Non-current debt

	Currency	Interest rate	Due	30 December 2000	31 December 1999
Bank debt in Russian banks	RR	0% – 20%	2000 and thereafter	206	172
Bank debt in Russian banks	Hard currency	0% – 20%	2000 and thereafter	262	216
Bank debt in Russian banks	RR	21%-40%	2000 and thereafter	492	12
Bank debt in Russian banks	RR	> 40%	2000 and thereafter	23	473
Eurobond	USD\$	8.4%	2002-2003	4,372	5,198
Bonds – RAO UES	RR /USD\$*	5%	2002-2003	3,000	1,180
Bonds issued by subsidiaries	RR/ USD\$**	8%	2003	3,455	-
Central government loans	RR	0% – 20%	2000 and thereafter	2,201	2,436
Central government loans	RR	21% – 40%	2000 and thereafter	161	628
Central government loans	RR	> 40%	2000 and thereafter	229	408
Regional government loans	RR	0% – 20%	2000 and thereafter	455	269
Foreign banks	USD\$	0% – 20%	2000 and thereafter	1,126	2,965
Other long-term debt				1,517	1,043
Total non-current debt				17,499	15,000
Less: current portion of non-current debt				(4,165)	(7,178)
Total				13,334	7,822

*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.

** Group entities issued bonds at 8 percent coupon for RR 3,455 million. These bonds are redeemable three years after issuance. 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

	31 December 2000	31 December 1999
Due for re-payment		
Between one and two years	1,306	141
Between two and five years	11,020	7,088
After 5 years	1,008	593
	13,334	7,822

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

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Notes to the Consolidated Financial Statements as at 31 December 2000

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

	Interest rate	31 December 2000	31 December 1999
Current debt*	0-20%	4,411	3,767
Current debt	21-40%	3,195	440
Current debt	>40%	37	2,584
Current portion of non-current debt		4,165	7,178
		11,808	13,969

* In March 2000 Samaraenergo issued zero coupon bonds for RR 1,000 million. These bonds were issued at a discount of 13 percent, equal to RR 130 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. These bonds are redeemable three years following the date of issuance. However, holders of these bonds have the right to early redemption. As a consequence, these bonds were classified as current debt.

A subsidiary of the Group, Mosenergo, has pledged its inventory and certain property, plant and equipment for a current debt of RR 905 million. The carrying value of these assets is equal to RR 1,245 million.

Note 18: Accounts payable and accrued charges

	31 December 2000	31 December 1999
Trade payables	88,539	113,244
Bills of exchange payable	2,274	4,197
Payables to associates	52	442
Dividends payable	437	916
Accrued liabilities and other creditors	23,338	21,760
	114,640	140,559

In the year ended 31 December 2000, approximately 48% (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:

	31 December 2000	31 December 1999
Value added tax	32,845	33,150
Fines and interest	29,025	27,785
Turnover taxes	10,813	12,590
Employee taxes	6,658	7,060
Profits tax	6,112	5,374
Property tax	1,904	1,836
Other taxes	5,969	5,371
	93,326	93,166

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

- in Value added tax – RR 10,043 million (1999: RR 15,497 million);
- in Turnover taxes – RR 729 million (1999: 4,748 million).

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Note 19: Taxes payable (continued)

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

For the year ended 31 December 2000, approximately 18% (year ended 31 December 1999: 38%) of the Group's settlements of taxes payable were settled via non-cash settlements.

Note 20: Governmental assistance

During the year ended 31 December 2000 the Federal government of the Russian Federation and regional government gave financial assistance equal to RR 2,502 million (1999: 2,065 million) for certain entities in the Far East region and RR 606 million (1999: 318 million) for other Group entities. This assistance in respect of 2000 and 1999 has been credited to the statement of operations fully.

Note 21: Earnings per share

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

	Year ended 31 December 2000	Year ended 31 December 1999
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	-
Adjusted for weighted average number of treasury shares, (thousands)	(415,934)	(394,901)
Weighted average number of ordinary and preference shares in issue (thousands)	42,700,969	40,646,853
Net income/(loss)	493	(11,846)
Declared preference share dividend	(153)	(91)
Adjusted net income/(loss)	340	(11,937)
Basic earnings/(loss) per share, Russian rouble	0.01	(0.29)

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 January 2001 onwards in excess of amounts contracted will be purchased through short term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in suppliers' costs, which in turn are determined by reference to published indices and limited by current market prices.

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Note 22: Commitments (continued)

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 22,796 million at 31 December 2000, and RR 25,830 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.

Physical risks. Due to the capital intensive nature of the industry, Group entities are 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 Group.

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

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

Industry changes. Under 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 1st Stage of the Electric Utilities Reform", approved by the Government Directive No1040-p dated 3 Aug 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.

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.

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Note 23: Contingencies (continued)

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. Additionally, a number of Group entities have placed with foreign banks forward contracts for the repurchase of Russian debt instruments. The forward contracts amount to RR 6,782 million and are reflected within other non-current assets. These forwards mature all in 2003. If these forwards are not effective then the total Group exposure is RR 7,455 million.

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

Interest rate risk. As discussed in Note 16 the majority of interest rates on debt are variable. Interest rates on 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; the interest rates on bonds issued by RAO UES and on bonds issued by subsidiaries is 5 percent and 8 percent, respectively. Assets are generally non-interest bearing.

Fair values. Management is 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.