1999

ANNUAL REPORT

ENR Eastern Natural Resources SA

Letter to shareholders

Dear shareholders,

After the financial crisis and insolvency of Russia in 1998, the country faced formidable challenges in 1999. Numerous Western economists predicted not only hunger and extreme poverty but also, the risk of civil unrest and dismemberment of the Russian Federation. Runaway inflation was also foreseen as the inevitable consequence of the events of 1998. As so often the case, Western forecasts and commentators were again proved totally wrong and completely off the mark. Successive governments not only kept order, but paid a large part of the outstanding wages, created the basis for increased Russian production and more importantly, managed to avoid hyper inflation, due mostly to their applying policies directly contrary to any typical IMF-recommended course of action. Indeed, Russia recovered throughout the course of the year, without assistance from the West and against all odds, continued to service the outstanding Euro debt.

Negotiation of the restructuring of foreign debt was drawn out throughout the entire year, without a satisfactory outcome and Western lenders and bond investors suffered substantial losses. These negotiations also brought to light a great number of irregularities and hundreds of so-called money laundering scandals. A crackdown by Western regulators virtually surrounded Russia with a "Financial Sanitary Cordon", preventing any inflow of investment funds. This isolation of the country clearly strengthened the nationalist circles and one should see the nomination to Prime Minister and subsequent election of Vlademir Putin as President in the context of a country so humiliated that the need for a strong government became inevitable. This also explains the second and this time largely successful Chechen war. Wide support among the Russian population and a great sense of hope for better times got the President elected – Western investors'confidence in Russia will take longer to establish itself.

For a great part of 1999, your Company suffered from the illiquidity of the Russian Capital Market however, by year-end, Capital Markets had recovered sufficiently for ENR to republish a reliable Asset Value. The Company closed the year with a moderate profit and is looking towards a very profitable first quarter. ENR has put its greatest problems behind it and has today more than fifty per cent in very liquid positions and is fully prepared to participate in any renewal of the Russian financial markets.

May, 2000

Hans-Jörg Rudloff

THE PAST YEAR IN REVIEW

Russian political and economic overview

The high level of political uncertainty associated with Russia has contributed greatly to the steep discounts applied to the country's assets vis-à-vis other emerging market economies. Yet two year-end events have seemingly reduced Russia's overall political risk premium – providing support to the continuing rally in equity prices.

Firstly, the election of a dominant centralist bloc in the Duma at the expense of the confrontational Communist/Agrarian parties smoothed what has been a rough relationship between the executive and the legislature.

Secondly, the resignation of the physically ailing and erratic President Boris Yeltsin shortened the period of uncertainty between parliamentary and presidential elections and removed any concerns (however remote) over the democratic transfer of power in this early stage of Russia's transition.

The victory of Vladimir Putin on the first round of the presidential elections was a positive development. He has surrounded himself with a team of economic reformers and technocrats. It is expected that they will institute a program of long-delayed reforms to develop a more favourable economic and investment climate in Russia.

GDP and industrial output are on the rise (up 2% and 4.5% respectively over the first 9 months in 1999). Investment is forecast to grow 2% in 1999, self-financed by domestic exporters. Monthly CPI has dropped to 1.2% with year-end inflation expected in the 35-38% range versus 84.4% in1998. Budget figures for 1999 are also strong. Revenues of 13.4% of GDP and expenditures of 14.9% of GDP well exceed target levels. This should satisfy the IMF as will the year 2000 Budget calling for 1% deficit, a 2% primary surplus and approximately USD10 billion. allocated to debt re-payments.

The prices of commodities, particularly crude oil, nickel and platinum contributed to a record of USD 32 billion current account surplus for 1999. Unfortunately, capital flight remains a problem as Central Bank reserves has shown only a slight increase to USD 12.7 billion after payment interest on the Eurobonds and the IMF loans.

Pulp & Paper

The Russian pulp & paper sector had a buoyant year. Companies involved in exports or import substitution have done particularly well. Syktyvkar and Kondopoga, the two pulp & paper companies in the ENR portfolio are two of the most modern and best managed facilities in the country. Cash flows have been reinvested in both cases. Between them, the two companies have capex programs over the next four years in excess of USD 350 million. Plans are to finance these through cash flows.

Although current international paper prices are low, the cycle appears to have bottomed. The most significant change in the past year is the relationship between domestic and export prices. As of the end of 1998, export prices for newsprint and offset paper reflected about a 20% premium to domestic whereas by the end of 1999, domestic markets were yielding roughly 30% over international prices.

Pipes and Tubes

The pipe industry is highly dependent on the oil and gas sector, which buys 60% of the domestic pipe production. Due to substantially lower oil prices in 1998, oil companies were forced to postpone a large amount of investment, negatively affecting the pipe industry. The turnaround in oil prices in 1999, as well as benefits from ruble devaluation has resulted in oil companies resuming certain investment programs and placing new orders.

Prospects for the pipe industry look promising in the long term, once oil production and investments fully pick up. About 50% of the pipe in existing pipelines is 20 years old and needs to be replaced. Increased drilling activity and major pipeline projects currently under discussion also offer great potential.

Power Utilities

Electricity production has fallen 27% over the past 10 years and today approximately 30% of Russia's generating capacity stands idle during peak hours. However, the lack of funds for capital investment and maintenance has resulted in a marked deterioration in the sector's assets. Assuming even moderated economic growth in the coming years, replacing Russia's aging capacity will become an increasingly important issue and will drive restructuring process.

Overall collection averaged 87% in 1998 and cash collection stood at 21%. In 1999 these figures were 99% and 35% respectively. Although this can partly be explained by enhanced cash circulation in the economy in general, the numbers also reflect substantial efforts on the part of management.

Russian Oil Industry

The Russian oil industry is presently experiencing very high levels of profitability, due mainly to the current price levels of both crude and products and the ruble devaluation.
The industry has been relatively effective at restraining inflation on the cost side of its operations and is constantly, though slowly, improving its operating and drilling efficiency.

The oil price has risen consistently over the past year, with Brent crude at about USD 28.00/bbl against a low of USD 9.89 in February 1999. Even though pressure is building on OPEC to increase production, we believe that a price pullback will probably not take us back below the USD 20 level, a level at which the Russian oil industry stays very profitable; last year's average price was at USD 18/bbl.

It is important to point out that, as Russia only exports about 35% of its crude, the significance of domestic price levels is primordial. Here again a major improvement has come about in 1999 with domestic prices now at USD 14/15/bbl against USD 3/4/bbl in early 1999. We believe that the gap between domestic and international levels can only narrow with time, as most refineries have greatly increased their export of products.

We estimate that in January 2000, the average Russian oil company earned about USD 10.50 per barrel of output. In 1999 annual production was up 0.5%, a slight improvement after the declines of the previous three years. Oil companies, showing the largest increases were Lukoil, Surgut and Slavneft. Yukos production remained stable, while Sibneft declined by 5.8%, mainly due to its concentration on its most efficient wells.

ANNUAL REPORT

Consolidated results

As of December 31, 1999, the Company recorded a net consolidated gain on investment of CHF 6.8 million. That amount includes realised gain and losses on investments as well as the valuation of the portfolio at fair value at the closing date. The other expenses are in excess of other revenues of CHF 2.9 million, which gives a net consolidated gain for the year of CHF 3.9 million.

The Company's portfolio of investment is valued at the year end on a consolidated basis at CHF 17.8 million which, together with other assets and liabilities, amounted to a consolidated shareholders' equity of CHF 20 million. Total assets at this date were CHF 28.7 million.

Parent Company

As of December 31, 1999 the Parent Company recorded shareholders' equity of CHF 26.9 million compared to CHF 17.7 million at December 31, 1998. Total assets represents CHF 28.5 million. During the period, provisions of CHF 10.3 million required against the declining value of investments in 1998, was reversed, resulting in a net gain for the year of CHF 9.1 million. The accumulated deficit as of December 31, 1999 amounts to CHF 10.6 million.

Consolidated Balance Sheet as of December 31, 1999

	Notes	1999	1998
Assets		CHF	CHF
Cash and cash equivalents		10'246'175	14'069'571
Investment portfolio at cost	4	64'209'739	67'163'080
Fair value adjustment / value impairment		(46'377'462)	(55'000'000)
Investment portfolio - net		17'832'277	12'163'080
Other assets		569'264	500'543
Total current assets		*27'647'717*	*26'733'194*
Own convertible bonds	6	–	4'252'930
Treasury stock and warrants	6	3'212	35'124
Capitalised expenditure - net	5	–	2'870'860
Total assets		28'650'929	33'892'108
Liabilities and Shareholders' Equity			
Accounts payable and accrued expenses		983'950	1'171'241
Provision for income and deferred taxes	7	201'517	320'093
Total current liabilities		*1'185'467*	*1'491'334*
Convertible bonds	6	7'500'650	14'629'046
Total liabilities		*8'686'117*	*16'120'380*
Share capital	6	37'500'000	37'500'000
Capital paid in excess of par value (share premium)		1'673'830	1'586'564
Equity component of convertible bonds	6	1'752'092	3'571'573
Accumulated deficit		(20'961'110)	(24'886'409)
Shareholders' Equity		*19'964'812*	*17'771'728*
Total Liabilities and Shareholders' Equity		28'650'929	33'892'108

Consolidated Statement of Income and Retained Earnings for the year ended December 31, 1999

	Notes	1999	1998
Operating Income		CHF	CHF
Interest income		67'120	743'156
Dividends		788'010	262'660
Gain on sale and net fair value adjustment of investments		12'854'932	17'907'004
Net gain on cancellation of convertible bonds		340'072	7'406'400
Exchange gain / (loss) net		57'510	(2'394'428)
Total operating income		14'107'644	23'924'792
Operating expenses			
Loss on sale of investments and value impairment adjustment		6'037'673	156'957'757
Management and performance fees		529'950	1'079'220
Administrative fees		50'750	124'281
Professional and directors' fees		370'362	578'158
Amortisation of capitalised expenditure		2'870'861	849'141
Bank charges and interest expenses		434'566	2'445'147
Accrued finance cost of convertible bonds	6	(37'877)	346'658
Other expenses		58'460	191'858
Taxes other than on income		117'600	178'039
Total operating expenses		10'432'345	162'750'259
Net income / (loss) before income taxes		3'675'299	(138'825'467)
Income taxes	7	250'000	1'737'090
Net income / (loss) for the year		3'925'299	(137'088'377)
(Accumulated deficit) / Retained earnings at the beginning of the year		(24'886'409)	69'387'994
Reversal of share premium		–	42'813'974
Accumulated deficit at the end of the year		(20'961'110)	(24'886'409)
Earnings / (loss) per share		5.23	(182.78)

Consolidated Cash Flow Statement for the year ended December 31, 1999

	Notes	1999	1998
Cash flow from operating activities		CHF	CHF
Net income / (loss) for the year		3'925'299	(137'088'377)
Adjustments for:			
Amortisation of capitalised expenditure		2'870'860	849,141
Accrued finance cost of convertible bonds	6	(37'877)	346,659
Net gain on cancellation of convertible bonds		(340'072)	(7'406'400)
Fair value adjustment on treasury stock and warrants		27'942	7'005'294
Fair value adjustment on convertible bonds		46'134	(46'134)
Net impairment (gain) / loss on investment portfolio	4	(6'391'335)	128'401'493
Operating loss / (gain) before working capital changes		100'951	(7'938'323)
Movement in working capital:			
Net sale of investments	4	722'137	13'513'575
Net sale / (purchase) of treasury stock and warrants		3'970	(1'422'047)
Purchase of convertible bonds		–	(4,206'796)
Short-term loan		–	(2'847'798)
Accounts payable and accrued expenses		(185'341)	(296'874)
Other assets		(68'720)	(496'360)
Provision for income and deferred taxes	7	(120'526)	(1'742'627)
Other liabilities		–	(598'857)
Net cash flow from / (used in) operating activities		452'471	(6'036'108)
Cash flow from financing activities			
Purchase of convertible bonds for cancellation		(4'275'866)	(33'203'060)
Net cash flow used in financing activities		(4'275'866)	(33'203'060)
Net cash flow		(3'823'395)	(39'239'168)
Cash and cash equivalents at beginning of the year		14'069'571	53'308'739
Cash and cash equivalents at end of the year		10'246'176	14'069'571

Determination of the Net Asset Value as of December 31, 1999

	Notes	1999 Following IAS presentation	1999 Representing the existing shareholders' economic interest
Total assets		28'650'929	28'650'929
Liabilities			
Convertible bonds	6	7'500'650	8'580'000
Other liabilities		1'185'467	1'185'467
Total liabilities		8'686'117	9'765'467
Shareholders' equity			
Share-capital		37'500'000	37'500'000
Capital paid in excess of par value (share premium)		1'673'830	1'673'830
Equity component of convertible bonds	6	1'752'092	–
Retained earnings		(20'961'110)	(20'288'368)
Total shareholders' equity		19'964'812	18'885'462
Total liabilities and shareholders' equity		28'650'929	28'650'929
Net asset value per share			25.18

The conversion rights relating to the convertible bonds and the exercise of the warrants have a non dilutive effect on the net asset value at December 31, 1999.

IMPORTANT NOTICE

As a result of the crisis in Russia, the Board of Directors decided to suspend calculation and publication of the Company's Net Asset Value as from August 24, 1998, until market conditions normalised. As the Board of Directors considered that the market conditions have now normalised, the presentation of the Net Asset Value as of December 31, 1999 has started to be recalculated and is presented above.

Notes to the Consolidated Financial Statements as of December 31, 1999

1 Incorporation and activity

ENR Eastern Natural Resources SA, Geneva (hereinafter, the "Company") is an investment holding company incorporated as a limited company under the laws of Switzerland. The company has no employees.
The Company invests, through its wholly-owned subsidiaries (hereinafter, together, the "Group"), in a diversified portfolio composed primarily of equity and equity-related securities of companies with substantial activities in the natural resources industry in the Commonwealth of Independent States (CIS) and the Baltic States.

2 Basis for the presentation of the consolidated financial statements

The consolidated financial statements of the Group, which include the accounts of ENR Eastern Natural Resources SA and its subsidiaries at December 31, 1999, are prepared in accordance with International Accounting Standards (IAS) as issued by the International Accounting Standards Committee. Financial instruments held for dealing purposes are measured on a fair value basis, as described in note 3.5, all other assets / liabilities are measured on an historical cost basis.

3 Significant accounting policies

3.1. Consolidation

Full consolidation is applied to subsidiaries, all of which are wholly owned. The accounts of the Company's subsidiaries are appropriately reclassified and adjusted for consolidation purposes to conform to the Group's accounting policies. All significant intra-group balances and operations are eliminated.

3.2. Fully consolidated companies

At December 31, 1999, the ENR Group was composed of ENR Eastern Natural Resources SA and the following wholly-owned subsidiaries :

	Share capital*			
Company		1999		1998
ENR Overseas Ltd, Nicosia	C£	1'833.0	C£	1'833.0
ENR Holdings Ltd, Nicosia	C£	3'310.0	C£	3'310.0
ENR Treasury Ltd, Nicosia	C£	370.0	C£	370.0
ENR Investment Ltd, Nicosia	C£	3'846.0	C£	3'846.0
ENR Securities Ltd, Grand Cayman	USD	0.1	USD	0.1
ENR Finance Ltd, Grand Cayman	USD	0.1	USD	0.1

3.3. Recognition of revenues and costs

Revenues and costs are recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

3.3.1 Interest

Interest is recognised on a time proportion basis that reflects the effective yield on the asset or liability.

3.3.2 Gain / (Loss) on investments

The gains or losses arising from the disposal of investments are recognised in the statement of income as they arise.

3.3.3 Dividends

Dividends are recognised when the Company's right to receive payment is established.

3.3.4 Other revenue

Other revenue is measured at the fair value of the consideration received or receivable.

3.4. Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Swiss francs at exchange rates ruling on the balance sheet date. Foreign exchange profits and losses are included in the income statement of the year in which the profits and losses arise. The financial statements of the subsidiaries are prepared in Swiss Francs as subsidiaries are integral to the operations of the parent. Their operations in foreign currencies are translated according to the above mentioned principles.

3.5. Investment portfolio

The investment portfolio is composed of listed shares and other investments and is recorded in the balance sheet at fair value. Fair value is determined on the basis of bid price for actively-traded investments and at cost for other investments if no significant transactions have taken place. If a significant transaction has taken place, the directors of the company may revalue the holding. If negative developments occur in any company, a write down will be made immediately. Changes in value are charged or credited in the statement of income.
It should be noted that in 1998, due to the significant adverse changes in Russia, the country in which the Group invests, the listed shares were no longer considered as being actively traded investments. As a consequence, they were held at cost as for other investments less a value impairment adjustment made on an aggregate portfolio basis, as determined by the board of

* *in thousands*

directors, as an active market no longer existed. These changes were brought to the attention of the shareholders at the extraordinary general meeting held on October 12, 1998.

3.6. Taxation

The Company provides for taxes when profits are earned. A provision is made in the consolidated accounts for deferred taxation arising from timing differences. Deferred taxation is provided for under the liability method.

3.7. Capitalised expenditure

These comprise of preliminary formation expenses which were up to 31 December 1998 amortised over 5 years on a straight line basis. In order to comply with new IAS 38 (intangible assets) all capitalised expenditure is fully written off as at 31 December 1999.

4 Investment portfolio

	Equities CHF *	Other financial instruments CHF *	1999 CHF *	1998 CHF *
Fair value of portfolio brought forward	12'163	0.00	12'163	154'078
Purchase of investment	248	–	248	277'180
Sale of investments	(970)	–	(970)	(290'694)
Net (loss) / gain on disposal of investments	(4'501)	–	(4'501)	(21'219)
	(5'223)	–	(5'223)	(34'733)
Increase / (decrease) in fair value	10'892	–	10'892	(107'182)
Fair value of portfolio*	17'832	0.00	17'832	12'163

At December 31, the investment portfolio consisted of the following:

	(fair value) 1999 CHF *	(at cost) 1998 CHF *
Listed shares	10'150	43'203
Special situations and illiquid shares	7'682	18'200
Fixed income instruments	0	5'760
	17'832	67'163

Special situation and illiquid shares include investments where the Company holds a significant stake, either on its own or in agreement with other shareholders, in the investment and / or where the shares are not readily tradable.
The investments in listed shares consist of the following positions:

Companies	Number of shares as of 31.12.1999	Changes since 31.12.1998	Local currency	Fair value 31.12.1999 (CHF *)	in % of portfolio
Listed shares					
Chelyabinsky Trubny Zadov	18'347'616	–	USD	206	1.16 %
Lenenergo Preferred	750'000	(250'000)	USD	52	0.29 %
Lukoil Holding - common	10'000	10'000	USD	162	0.91 %
Lukoil - preferred	10'000	10'000	USD	76	0.43 %
Nizhnetagilsky Metal	29'143'990	–	USD	933	5.23 %
Noyabrskneftegaz (1)	–	(532'980)	USD	–	0.00 %
Oskol Steel	12'500	–	USD	100	0.56 %
Purneftegaz Preferred	120'000	–	USD	29	0.16 %
Sakhalinenergo	2'200'000	–	USD	7	0.04 %
Sakhalinmorneftegaz Preferred	135'000	–	USD	86	0.48 %
Sakhalinmorneftegaz	1'656'710	–	USD	4'241	23.78 %
Samara Energo	29'050'000	–	USD	744	4.17 %
Seversky Tube -ADR	58'250	-	USD	708	3.97 %
Sibneft (1)	4'263'840	4'263'840	USD	2'320	13.01 %
Sinarsky Trubny Zadov	156'631	–	USD	88	0.49 %
Sverdlovenergo Preferred	500'000	(150'000)	USD	1	0.01 %
Yuganskeneftegaz	250'000	–	USD	381	2.14 %
Yuganskeneftegaz Preferred	25'000	–	USD	16	0.09 %
Sub-total				**10'150**	**56.91 %**

(1) Noyabrskneftegaz exchanged into Sibneft

** in thousands*

Special situations and illiquid shares					
Akron	10	-	USD	10	0.06%
BAM Resources PLC	200'000	-	USD	-	0.00%
Buryatzoloto	285'800	-	USD	320	1.79%
Kondopoga	162'314	-	USD	1'169	6.55%
Moscow Refinery	41'463	(40'000)	USD	664	3.72%
Moscow Refinery Preferred	12'500	–	USD	100	0.56%
Nosta (Orsko-Khalilovsk Met C)	45'000	–	USD	7	0.04%
Slavneft	5'159'314	–	USD	990	5.55%
Syktyvkarsky	40'083	–	USD	4'425	24.81%
Syktyvkarsky Prefered	–	(7'000)	USD	–	0.00%
Vyksunsky Plant	–	(19'000)	USD	–	0.00%
Sub-total				7'685	43.09%
Fixed income instruments					
The Red Square Debt Fund	400'000	–	USD	–	0.00%
Sub-total				–	0.00%
Total fair value				**17'832**	**100.00%**

5 Capitalised expenditure

Capitalised expenditure is no longer recognised as an intangible asset according to IAS 38 and has therefore been fully amortised during the year.

At December 31, 1999, total expenditure carried forward and related amortisation were as follows:

	1999 CHF *	1998 CHF *
Capitalised expenditure	5'281	5'281
Accumulated amortisation	(5'281)	(2'410)
Net	–	2'871

6 Share capital

At December 31, 1999, the issued ordinary share capital of the Company was CHF 37.5 million, divided into 750'000 bearer shares of par value CHF 50 each.

6.1. Movements in shareholders' equity

	Share capital CHF*	Share premium CHF*	Reserve for Treasury Stock CHF*	Retained Earnings/ (accumulated deficit) CHF*	Equity component of convertible bonds CHF*	Total CHF*
Balance at January 1, 1999	37'500	1'587	–	(24'886)	3'571	17'772
Repurchase of convertible bonds		87			(1'819)	(1'733)
Net gain for the year				3'926		3'926
Balance at December 31, 1999	**37'500**	**1'674**	**–**	**(20'960)**	**1'752**	**19'965**

6.2 Own warrants

At December 31, the company held the following own warrants:

	1999	1998
Number of warrants	107'080	117'080

6.3. Conditional capital and authorised capital

The Company may increase its share capital by the exercise of option or conversion rights by up to a maximum amount of CHF 18'750'000 through the issue of a maximum of 375,000 bearer shares of par value of CHF 50 each. These shares are reserved for the exercise of option and conversion rights issued by the Company (see notes 6.4 and 6.5).

The Board of Directors is authorised until March 16, 2000 to increase the Company's share capital by up to CHF 18'750'000 through the issue of a maximum of 375'000 bearer shares of par value of CHF 50 each.

	1999 CHF *	1998CHF *
Conditional capital	18'750	18'750
Authorised capital	18'750	18'750

* *in thousands*

6.4. Warrants

The Company has issued a total of 1'900'000 option rights in the form of warrants, entitling warrant holders to subscribe for one share for every ten warrants up to May 31, 2000. Following the June 1997 capital increase, the exercise price of the warrants was reduced from CHF 100 to CHF 83.10.

6.5. Convertible bonds

On October 28, 1997, ENR Finance Ltd issued, at par value, 3 3/4% convertible bonds for CHF 60'000'000, October 28, 2002. Each bond of CHF 5'000 nominal is convertible into 20 bearer shares of ENR Eastern Natural Resources SA of CHF 50 nominal each. In the consolidated financial statements, the loan is divided into a liability and an equity component. The fair value of the liability component is calculated using a discount rate of 9%, as if the bonds have no embedded conversion rights and the market rate of interest applied.

As the amount payable on redemption will normally exceed the amount allocated to the debt at the time of issue, a finance cost, additional to the coupon actually paid, will be accrued in each accounting period. The interest expense on the effective yield basis comprises of the coupon and the finance cost.

At the date of issue, the detail of the liability and equity components was as follows:

	CHF *
Present value of the principal (CHF 60 million payable at the end of five years)	38'996
Present value of the interest (CHF 2.25 million payable annually in arrears for five years)	8'752
Total liability component	47'748
Equity component	12'252
Proceeds of the bonds issue	60'000

As of December 31, 1999, the Company had bought for cancellation, on the open market, CHF 51'420'000 nominal value of its own bonds. The purchase of bonds cancelled during the year 1999 resulted in a total gain of CHF 427'338 of which CHF 87'266 representing the gain on the equity component of the cancelled bonds, has been credited to the share premium account and the CHF 340'072 gain the liability component has been taken to the statement of income and retained earnings.

At December 31, 1999 the liability and the equity component of the convertible bonds consist of the following:

	Liability component	Equity component	Nominal value
At January 1, 1998	14'629	3'571	17'490
Reversal of prior year finance cost on cancelled bonds	(98)	–	–
Less: cancelled bonds in 1999	(7'091)	(1'819)	(8'910)
Less: accrued finance cost at December 31, 1998 of outstanding bonds	61	–	–
Outstanding convertible bonds	7'501	1'752	8'580

* *in thousands*

ATAG ERNST & YOUNG

Report of the Group Auditors to the General Meeting of ENR Eastern Natural Resources SA, Geneva

As auditors of the group, we have audited the consolidated financial statements (consolidated balance sheet, consolidated statement of retained earnings, consolidated cash flow statement and notes) on pages 6 to 11 of ENR Eastern Natural Resources SA for the year ended December 31, 1999.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards, promulgated by the profession and with International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Accounting Standards (IAS) and comply with the law and the accounting provisions as contained in the Listing Rules of the Swiss Exchange.

In addition, as required under article 20 of the listing rules for investment companies, in our opinion the board of directors has used reasonable methods and estimates to determine the fair value of the investment portfolio.

We recommend that the consolidated financial statements submitted to you be approved.

Geneva, March 29, 2000

ATAG Ernst & Young SA

Pascal Gisiger
Certified Accountant
(Auditor in charge)

Nigel Le Masurier
Chartered Accountant

ATAG ERNST & YOUNG

Report of the Statutory Auditors to the General Meeting of ENR Eastern Natural Resources SA, Geneva

As statutory auditors, we have audited the accounting records and the financial statements on pages 14 to 15 of ENR Eastern Natural Resources SA for the year ended December 31, 1999.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accounting records and the financial statements comply with the law and the company's articles of incorporation as well as the listing rules of the Swiss Exchange.

In addition, as required under article 20 of the listing rules for investment companies, in our opinion the board of directors has used reasonable methods and estimates to determine the fair value of the investment portfolio.

We recommend that the financial statements submitted to you be approved.

Geneva, March 29, 2000

ATAG Ernst & Young SA

Pascal Gisiger
Certified Accountant
(Auditor in charge)

Nigel Le Masurier
Chartered Accountant

Parent Company Balance Sheet as of December 31, 1999

		Notes	1999	1998
Assets			CHF	CHF
Cash and cash equivalents			6'974	16'590
Receivables from subsidiaries (net of a provision of CHF 23'476'405; 1998: CHF 30'756'362)			7'424'528	–
Other assets			41'208	544
	Current assets		*7'480'710*	*17'134*
Investments (net of a provision of CHF 29'000'000; 1998: CHF 32'000'000)		1	21'000'000	18'000'000
Capitalised expenditure - net			–	1'284'075
Total assets			28'480'710	19'301'209
Liabilities and Shareholders' Equity				
Accounts payable			1'262	35'642
Accrued expenses			189'450	159'408
Payables to subsidiaries			1'427'056	1'369'375
	Liabilities		*1'617'768*	*1'564'425*
Share capital		2	37'500'000	37'500'000
Accumulated deficit			(10'637'058)	(19'763'216)
	Shareholders' Equity		*26'862'942*	*17'736'784*
Total Liabilities and Shareholders' Equity			28'480'710	19'301'209

Parent Company Statement of Income and Retained Earnings for the year ended December 31, 1999

	1999	1998
Income	CHF	CHF
Interest income	566'256	893'855
Reversal of provision on receivable from subsidiaries	7'279'957	–
Reversal of provision on investments	3'000'000	–
Total income	10'846'213	893'855
Expenses		
Provision on receivables from subsidiaries	–	30'756'362
Provision on investments	–	32'000'000
Administrative fees	10'750	34'421
Professional and directors' fees	276'592	294'040
Amortisation of capitalised expenditure	1'284'074	396'678
Bank charges and interest	378	67'067
Other expenses	30'661	121'903
Taxes	117'600	172'388
Total expenses	1'720'055	63'842'859
Net income / (loss) for the year	9'126'158	(62'949'004)
(Accumulated deficit) / retained earnings at the beginning of the year	(19'763'216)	685'788
Reversal of share premium	–	42'500'000
Accumulated deficit at the end of the year	(10'637'058)	(19'763'216)

Notes to the Financial Statements as of December 31, 1999

1 **Significant investments**

At December 31, 1999, the ENR Group was composed of ENR Eastern Natural Resources SA and the following wholly-owned subsidiaries:

	Share capital*			
Company		1999		1998
ENR Overseas Ltd, Nicosia	C£	1'833.0	C£	1'833.0
ENR Holdings Ltd, Nicosia	C£	3'310.0	C£	3'310.0
ENR Treasury Ltd, Nicosia	C£	370.0	C£	370.0
ENR Investment Ltd, Nicosia	C£	3'846.0	C£	3'846.0
ENR Securities Ltd, Grand Cayman	USD	0.1	USD	0.1
ENR Finance Ltd, Grand Cayman	USD	0.1	USD	0.1

2 **Share capital**

At December 31, 1999, the issued ordinary share capital of the Company was CHF 37.5 million, divided into 750'000 bearer shares of par value CHF 50 each.

2.1. Movements in shareholders' equity

	Share capital CHF *	Accumulated deficit	Total CHF * CHF *
Balance at January 1, 1999	37'500	(19'763)	17'737
Net loss for the year	–	(1'153)	(1'153)
Balance at December 31, 1999	37'500	(20'916)	(16'584)

In conformity with the prescriptions of Article 725 paragraph 1 of the Swiss Code of Obligations, the board of Directors convoked an extraordinary general meeting on October 12, 1998.

2.2 Treasury stock and warrants

At December 31, treasury stock and warrants held by a subsidiary consisted of the following:

	1999	1998
Number of warrants	107'080	117'080

2.3. Conditional capital and authorised capital

The Company may increase its share capital by the exercise of option or conversion rights by up to a maximum amount of CHF 18,750,000 through the issue of a maximum of 375'000 bearer shares of par value of CHF 50 each. These shares are reserved for the exercise of option and conversion rights issued by the Company.
The Board of Directors is authorised until March 16, 2000 to increase the Company's share capital by up to CHF 18'750'000 through the issue of a maximum of 375'000 bearer shares of par value of CHF 50 each.

	1999 CHF *	1998 CHF *
Conditional capital	18'750	18'750
Authorised capital	18'750	18'750

2.4. Warrants

The Company has issued a total of 1'900'000 option rights in the form of warrants, entitling warrant holders to subscribe for one share for every ten warrants up to May 31, 2000. Following the June 1997 capital increase, the exercise price of the warrants was reduced from CHF 100 to CHF 83.10.

3 **Guarantees for the convertible bonds**

On October 28, 1997, ENR Finance Ltd issued, at par value, 3 3/4% convertible bonds for CHF 60'000'000, October 28, 2002. Each bond of CHF 5'000 nominal is convertible into 20 bearer shares of ENR Eastern Natural Resources SA of CHF 50 nominal each.
As of December 31, 1999, ENR Finance Ltd had bought for cancellation, on the open market, CHF 51'420'000 nominal value of its own bonds.
These bonds have been unconditionally and irrevocably indemnified by the Company.

* *in thousands*

Price information

Date	Net Assets CHF (in thousand)	NAV per share CHF (adjusted)	NAV per share Fully diluted * (adjusted) CHF	Share price CHF (adjusted)	Warrant price CHF
31.03.95	50'210	82.28	82.50	89.14	4.00
30.06.96	70'260	115.13	106.31	118.55	7.00
31.12.96	69'202	113.39	105.05	109.64	4.90
30.06.97 1)	162'998	217.33	190.20	154.00	11.80
31.12.97	149'752	199.67	176.11	155.00	11.95
30.06.98	65'003	86.67	85.95	91.00	4.80
31.12.98	n/a	n/a	n/a	25.85	0.30
31.03.99	n/a	n/a	n/a	21.45	0.18
30.06.99	n/a	n/a	n/a	24.20	0.15
30.09.99	n/a	n/a	n/a	22.05	0.06
29.10.99	n/a	n/a	n/a	23.20	0.06
30.11.99	n/a	n/a	n/a	22.00	0.05
31.12.99	18'886	25.18	25.18	22.00	0.03

* Fully diluted to reflect the exercise of the warrants

1. Capital increase of 250'000 shares, par value CHF 50, subscription price CHF 120 on June 30, 1997

Warrants

The Company has issued a total of 1,9 million option rights in the form of Warrants, entitling Warrant holders to subscribe for one Share for every ten Warrants held at a price of CHF 83.10 per share up to May 31, 2000.

Summary

Organisation

BOARD OF DIRECTORS	Hans-Jörg Rudloff	*Chairman*
	Robert Pennone	*Vice-Chairman*
	Jean-Paul Aeschimann	*Secretary*
	Martin Pestalozzi	*Member*
INVESTMENT MANAGER	NRM Natural Resources Management Ltd	
INVESTMENT ADVISORS	MC Trustco Axiom Advisory Services SA Vulcan Petroleum Ltd	
CUSTODIAN	ING Bank Eurasia A/O	
ADMINISTRATOR	Fidutec Fiduciaire SA	
AUDITORS	Atag Ernst & Young	
MANAGEMENT FEE *	2% per annum of the average total stock market capitalisation	
PERFORMANCE FEE *	15% of the amount by which the share price increase exceeds an annual return of 10% and 20% of the amount in excess of an annual return of 20%	

Publication Listing

NAV PUBLICATION	Finanz & Wirtschaft (twice a week) The Financial Times (once a week) Reuters : MCSY (daily)
INTERIM REPORT	Available upon request at the Company
LISTING	Swiss Exchange
TICKER SYMBOL	Bloomberg : ENR SW • Reuters : ENRZ.S
SECURITY NUMBER	Bearer Shares 347.166 • Warrants 347.167

Investment policy

The investment objective of the Company is to maximise the long term returns to shareholders. The Investment Manager intends to achieve this by investing the Company's assets in a diversified portfolio of securities of companies with substantial activities in the natural resources industry in Russia and in other Newly Independant States (NIS), and within certain limits, in debt instruments, physical commodities and privatisation vouchers.

* The Company informed at the Extraordinary General Meeting of Shareholders of 12 October 1998, that the Investment Manager renounces to the management fees as of 1 August 1998 until the net asset value per share reaches CHF 56.18 (being the net asset value of 14 August 1998, the day before the Russian debt moratorium was announced). Once this level is reached, the management fees will be paid to the Investment Manager retroactively. The hurdle rate for the calculation of the performance fee has been lowered to CHF 100.-.

ENR Eastern Natural Resources SA

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