MOSENERGO


MOSENERGO
TRANSFORMATION
ENERGY


ANNUAL REPORT
MOSENERGO
2010

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Address by the Chairman of the Board of Directors

Chairman of the Board
of Directors of Mosenergo
K.G. Seleznev

Dear shareholders!

The key priority in the activities of Mosenergo - the largest territorial generating company in Russia and the largest supplier of heat in the world – is to ensure reliable supply of heat and electricity to the consumers in Moscow and Moscow region.

Last year the power plants of the Company generated 65 billion kWh of electricity, which is 5.2% more than in 2009. Heat delivery increased by 6.8% to 69.9 million Gcal. The share of generating capacities commissioned during the recent years in the total output of Mosenergo has been growing steadily. Electricity generation at the new power units grew in 2010 by 10.2% and amounted to 8 billion kWh.

Construction of highly efficient combined cycle units with the efficiency in excess of 50%, implementation of the state-of-the-art power engineering technologies, replacement of the aged equipment are among the priority tasks of the Company. Achieving these tasks greatly improves technical performance of the power units, enhances fuel consumption efficiency and minimizes the environmental impact of the power plants.

The Company is already a leader of the Russian power industry in terms of the rate of commissioning of new generating capacities. In 2007-2008, three new combined cycle steam-gas power units with the total rated power of 1,325 MW were commissioned at the power plants of Mosenergo; in 2010 construction of the SGU-420 Unit №8 of TPP-26 was completed. As of today, this is the most modern combined cycle plant in Russia, with the efficiency as high as 59%.

Construction of the SGU-420 unit at TPP-12, SGU-420 units at TPP-16 and TPP-20 and GTE-65 gas turbine facility at TPP-9 pursuant to the capacity rendering agreements signed during the last year will result in the increase of the total installed capacity of the Company by 1,120 MW. These power units are scheduled to be commissioned in 2012-2014.

The measures taken to reduce operational costs, ensure financial stability and improve personnel management methods and instruments were also aimed at improving overall efficiency of the Company. Stable operations along with implementation of a large scale investment program should contribute to further strengthening of the leading position of Mosenergo among the Russian generating companies.

In 2010, Mosenergo continued the efforts to enhance energy efficiency. Renovation and installation of new equipment, routine maintenance activities, measures taken to optimize equipment loading and operating modes allowed achieving substantial saving of fuel, reducing in-house power consumption and thereby obtaining tangible economical benefit. The Company is a constant member of the energy saving program of Moscow, annually contributing to improvement of effectiveness of the use of energy resources.

One of the foremost priorities for the Company is environment protection. A system of ecological management compliant with the international standard ISO 14001:2004 has been implemented in Mosenergo. The power plants of the Company are equipped with automated environmental monitoring systems. Annual programmes of measures to minimized effluents and improve processing of wastewater are in place.

One of the most important principles of Mosenergo in the area of corporate management is to observe the balance between the immediate interests of the Company shareholders and the need for its further development. An important milestone in evolution of the corporate management system of the Company was approval in December 2010 by the Board of Directors of dividend policy defining the principles of distribution of the Company profits.

I feel confident that joint efforts of the Board of Directors, Company management and shareholders will continue facilitating dynamic growth of the Company.

Member of Gazprom Executive Board
Chairman of the Board of Directors
of Mosenergo

K.G. Seleznev

Address by the Director General

General Director
Mosenergo V.G. Yakovlev

Dear shareholders!

In 2010 Mosenergo succeeded in reliably and uninterruptedly providing electric energy and heat to industries and general public.

Over the year, the financial performance of the Company has improved substantially. Thus, EBITDA increased by 17% compared to 2009 and amounted to 21 billion roubles whereas net profit reached the record level of 7.6 billion roubles, which is 69% over the net profit of the previous year.

In December 2010, Dividend policy of Mosenergo was approved by the decision of the Board of Directors. The established procedure of calculation of the amount of dividends allows paying 5% to 35% of the net profit of the company as dividends under the condition that the reserve fund is fully created as according to the Articles of Association.

In 2010 we successfully fulfilled all the tasks for the year, the most important of which was the implementation and further dissemination of the "Lean production" program at the plants operated by Mosenergo and in the General Directorate.

The principal objectives of the Program were to increase reliability of equipment operation and to minimize the production expenses of the Company. The tools and procedures being implemented at the affiliates of the company are designed to eliminate all the possible kinds of production losses and to increase overall efficiency of operation.

The integrated program of lean production is presently in place at the thermal power plants TPP-23, TPP-21, TPP-11, and TPP-25. Implementation is in progress at TPP-8, TPP-20, TPP-27, TPP-12, and TPP-22. Overall economic effect of implementation of the "Lean production" program at four affiliates of Mosenergo in 2010 amounted to 344.4 million roubles.

The ongoing transformations significantly affected operation of power plants. Major initiatives are intended for enhancing reliability of equipment operation and minimizing fuel consumption. Equipment reliability can be increased by means of standardization of equipment walkdown programs and implementation of tools and instrumentation for visualization and accounting of defects. Fuel consumption can be decreased at the expense of minimization of the deviations of the key technical and economic parameters from the prescribed values, standardization of the choice of auxiliary equipment, control of in-house power consumption. More attention is also being given to decreasing deviations of the operating modes from the dispatcher schedules with the aid of tools standardizing personnel actions. Overall economic effect from the optimization of operations in 2010 amounted to 2010.

In the framework of development of continuous improvement system, an innovation Committee was established in the General Directorate with the participation of the representatives of technical services and investment department. A set of meeting was organized at the affiliates to generate ideas for improvement; united electronic database of improvement ideas started functioning. 480 measures were suggested in 2010 with the overall economic effect of 250 million roubles. Some of these measures are under implementation at the moment.

Implementation of the program of measures in the area of labor and environment protection.

In order to strengthen labor and employee health protection and minimize the risk of accidents, a service for safety, labor protection and ecology independent of the technical service and plant directors and reporting directly to the CEO was established.

In 2010, analysis of risks was performed and strategic program of labor protection activities for 2011-2014 was produced. Most of the measures from the "30 Program" – a program of simple visible initiatives aimed to enhance labor protection – have been implemented. Thus, standard section about penalties for violation of labor protection routines was introduced into contractual agreements with contractor organizations.

In order to enhance motivation and involve the managerial, administrative and technical personnel into labor protection and accident prevention activities, the safety, labor protection and environmental unit introduced a quarterly in-depth audit of all the power plants of Mosenergo by mobile brigades of the labor protection and fire safety service of the general directorate rating the plant performance as a result of such audits.

Operating personnel of the affiliates was trained in six standard operational procedures, which decreased the risks associated with human performance in case of abnormal situations.

"Labor protection days" are held at the affiliates of Mosenergo on a monthly basis, weekly information leaflets of the safety, labor protection and environmental unit are circulated to all the plants, display stands with visual information about occupational injures are installed at all the plants.

Expense optimization and monitoring

In 2010, a series of expense optimization and monitoring activities were performed in the Company. Despite the 37% increase of expenses for fuel (mostly caused by substantial increase of fuel prices), the rate of growth of prime cost in 2010 did not exceed the rate of growth of revenues.

Increase of the recurring expenses by 9% without amortization and depreciation is on the whole consistent with the 2010 inflation rate (8.8%). This growth was mostly due to one-time events. The main share in the structure of recurring expenses belonged to labor remunerations (+3.7%), which according to the accounting standards included one-time payments of severance benefits and other expenses for personnel in relation to liquidation of non-production affiliates and organizations. Exclusive of these non-recurring payments, labor remuneration expenses decreased by 3.3%.

Maintenance activities were continued to be contracted out in 2010. Specifically, the Central Mechanical Maintenance Plant consolidated earlier was separated from Mosenergo.

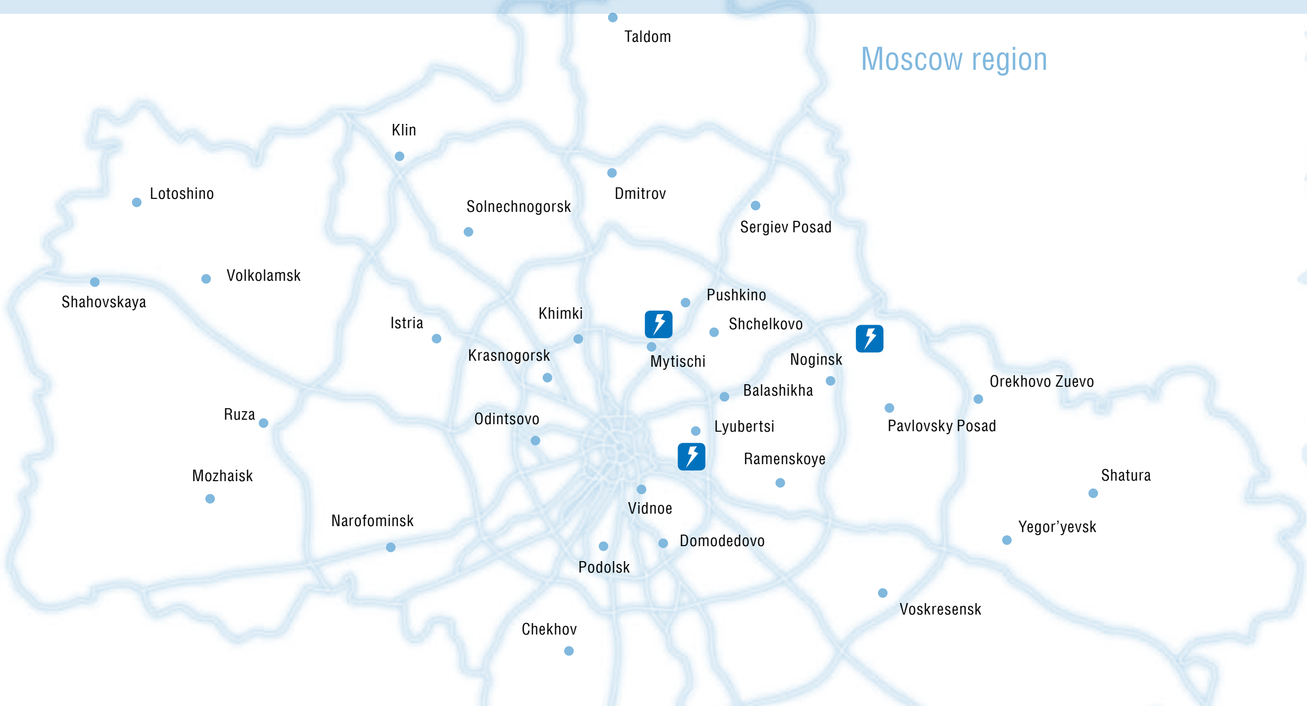
Besides that, other important projects were initiated and being developed in the Company in order to further increase effectiveness of its operation: extension of usage and addition of new SAP software modules, development of heating business of the Company, continued design and construction of new generating capacities under Capacity Supply Agreements.

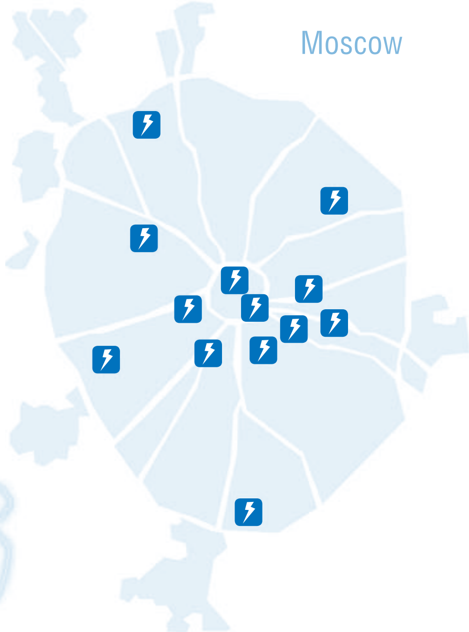
All these areas will remain among the priorities for 2011.

General Director
Mosenergo

V.G. Yakovlev

Company portrait





- Mosenergo is the largest regional generating company of the Russian Federation.
- Mosenergo includes 15 power plants with the electric installed capacity of 11.9 thousand MW and heat installed capacity of 40.5 thousand MW (34.9 thousand Gcal/hour).
- Mosenergo is producing 6% of the electricity generated in the Russian Federation (exclusive of nuclear power plants).
- Mosenergo is a main supplier of electricity and heat for the Moscow region uniting two subject of the Russian Federation - Moscow and Moscow region.
- Mosenergo is supplying 67% of the total electricity consumption of Moscow region. 18% of demand is covered by other power plants of Moscow region, and 15 % - by net power transmission from other regions.
- Increase of electricity consumption in 2010 amounted to 4.3% in the Russian Federation and 3.5% in Moscow region.

- The major existing and potential competitors of Mosenergo on the wholesale market of electricity and capacity from among the power plants of Moscow region in 2010 were as follows: Kashira GRES-4 (OGK-1), Shatura GRES-5 (OGK-5), Zagorsk pumped storage hydro station (RusHydro).
- Mosenergo occupies 70% of the heat market of Moscow and 43% of the heat market of Moscow region.
- Heat consumption in the Moscow region grew by 4.3% in 2010.
- The main competitor of Mosenergo in the heating sector is Moscow Unified Energy Company (MOEK).

Mosenergo in figures

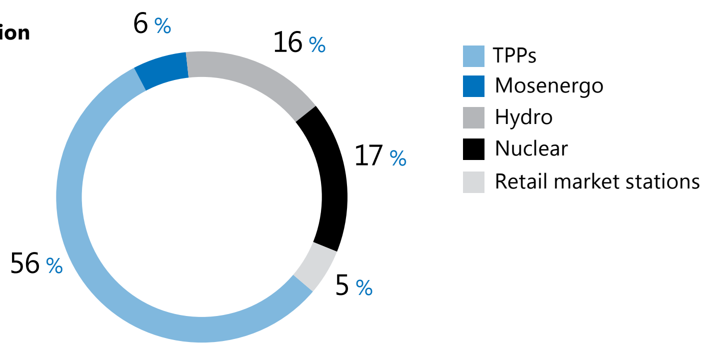
Main performance indicators

	2009	2010	Change
Electricity generation, mln kWh	61,747	64,969	5.2%
Electricity busbar output, mln kWh	56,913	60,026	5.5%
Electricity sales, mln kWh	63,387	66,261	4.5%
Heat output, thousand Gcal	65,406	69,865	6.8%
Electricity generation fuel rate, goe/kWh	244.7	252.0	3.0%

Main financial performance parameters[1], million roubles

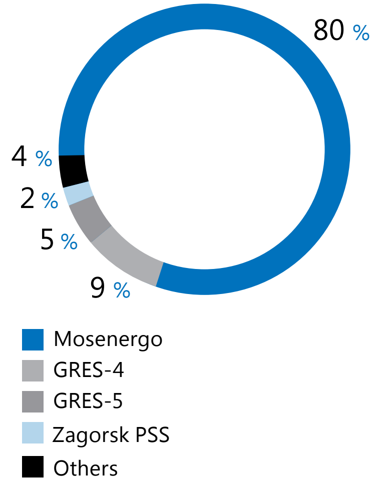
	2009	2010	Change
Revenues	112,227	143,757	28.1%
Prime cost	104,997	134,049	27.7%
Net earnings	7,231	9,708	34.3%
Sales profit	6,943	9,449	36.1%
Net profit	4,509	7,626	69.1%
	As of 01.01.2010	As of 31.12.2010	Change
Non-current assets	148,660	142,640	-4.0%
Current assets	57,497	73,184	27.3%
Long term liabilities	22,230	18,380	-17.3%
Short term liabilities	16,691	23,083	38.3%

Electricity generation in Russia in 2010

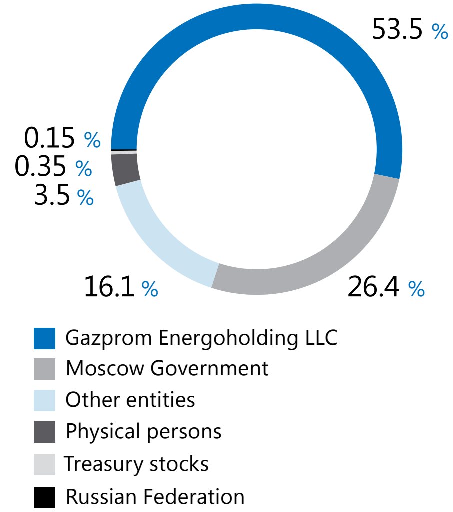


[1] *According to RAS*

Electricity generation in Moscow Region in 2010



Shareholder structure of Mosenergo[2]



The shareholder capital of Mosenergo amounts to 39,749,359,700 roubles and is divided into 39,749,359,700 ordinary inscribed uncertified shares with the face value of 1 (one) rouble each.

Securities

Mosenergo shares are listed in the Russian MICEX (in the A1 quoting list) and RTS (in the A1 quoting list) stock exchanges. Starting from December 6, 2010, Mosenergo shares are traded in the RTS Standard section of the RTS stock exchange.

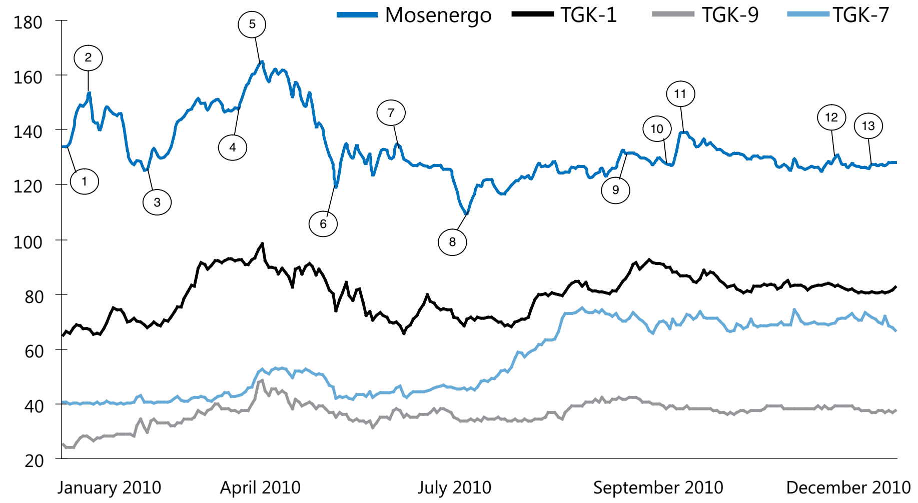
Tickers:
- MICEX - MSNG
- RTS SE T+0 – MSNGG
- RTS SE RTS Classic – MSNGG
- RTS Standard – MSNG
- Bloomberg code MSNG RU
- Reuters code MSNG.RTS

Depositary receipt programs:
- Level 1
- 144A
- Reg S

Depositary receipts of Mosenergo are listed on the over the counter (OTC) market of the NewYork Stock Exchange and in the IOB (International Order Book) sector of the London Stock Exchange.

[2] *As of January 1, 2011*

Mosenergo market capitalization dynamics and key events of 2010, billion roubles



	Date	Event	Change of share price
1	January 1	Liberalization of electricity market in the RF increased to 60% starting from January 1, 2010 The Market Council increased the rates for new generating capacities in 2010 The cost of electricity in the European part of the RF grew by 32.8% between January 1 and January 7	+11% from January 11 to January 18
2	January 21	Reshuffles in the RF Ministry of Energy	-6.5%
3	February 24	Announcement that the pricing parameters within the model of long term capacity market are to be established by the RF Government Decree within 15 days	+14.8% from February 24 to March 9
4	March 24	Pricing parameters for the capacity market approved by the Government Financial reporting according to the Russian Accounting Standards for 2009 issued	+12.2% from March 24 to April 6
5	April 16	Ministry of Energy insists on two-fold increase of decommissioning of the old generating capacities compared to the industry data Pricing parameters for the long term capacity market in the electric power industry established by the Government Publication of Mosenergo IFRS reporting for 2009	-6.1% from April 16 to April 23
6	May	The Board of Directors of Mosenergo recommended the Shareholder meeting to adopt the decision to pay 500 million roubles of dividends in 2009. Publication of Mosenergo financial statements according to Russian Accounting Standards for the first quarter of 2010	+13.3% from May 7 to May 13
7	June 15	Financial reporting according to the IFRS for 1 issued The general plane of siting of power industry facilities for the period until 2030 corrected downwards	-7.9% from June 16 to June 30
8	July 22	The results of Mosenergo operations for the first half of 2010 Ministry of Energy approved the investment program for regional and territorial generating companies	+6.7% from July 22 to August 3
9	September 10	Publication of Mosenergo IFRS reporting for 6 months of 2010	-1.0% from September 13 to September 14
10	September 28	Dismissal of the Mayor of Moscow Yuri Luzhkov Tests of electrical equipment of the new combined cycle unit SGU-420 at TPP-26 performed	+9.1% from June 28 to June 30
11	October 1	Federal Tariff Service establishes the limiting rates of growth for electricity tariffs	-3.5% from October 1 to October 7
12	December 6	Shares of Mosenergo started to be traded at a new RTS Standard floor of the RTS stock exchange	+2.3% From December 3 to December 7
13	December 21	Publication of Mosenergo IFRS reporting for 9 months of 2010	-0.3% December 22-23

Major Events of 2010

MARCH

March 16 Financial reporting according to the Russian Accounting Standards for 2009 issued.

APRIL

April 6 Mosenergo announced successful beginning of full scale commercial operation of SAP ERP and SAP BI systems in the General Directorate and in the production affiliates of the Company.
April 16 Financial reporting according to the Russian Accounting Standards for 2009 issued.

MAY

May 27 Financial reporting according to the Russian Accounting Standards for the first quarter of 2010 issued.

JUNE

June 4 Mosenergo paid the first coupon yield on the bonds of 03 series (the total size of the issue – 5 billion roubles). Total payments amounted to 255.55 thousand roubles (51.11 roubles per bond).
June 15 Financial reporting according to the IFRS for the first quarter of 2010 issued. An "Analyst day" was held in Mosenergo, during which a visit to TPP-26 was arranged. The participants of the event toured the operational units of the plant and the construction site of the combined cycle unit SGU-420.
June 16 Annual Shareholder Meeting of Mosenergo took place.

JULY

July 5 A member of the Executive Board, head of the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJSC Kirill Seleznev was elected a Chairman of the Board of Directors of Mosenergo. The first deputy to the Mayor of Moscow in the Moscow Government Petr Biryukov was elected a Deputy Chairman of the Board of Directors of Mosenergo.
July 23 A meeting with the representatives of investment funds and banks was held in Mosenergo in the framework of the "Power industry day" organized by Goldman Sachs. A presentation was made by Mosenergo in the corporate office and a tour of TPP-26 organized in the framework of the meeting.

AUGUST

August 5 Financial reporting according to the Russian Accounting Standards for the first half of 2010 issued.
August 26 Mosenergo paid the ninth coupon yield on the bonds of 02 series (the total size of the issue – 5 billion roubles). Total payments amounted to 182.47 thousand roubles (38.15 roubles per bond). The company also paid the second coupon yield and redeemed the issue of on the bonds of BO-02 series (the total size of the issue – 2 billion roubles). Total payments amounted to 114.18 thousand roubles (57.09 roubles per bond).

SEPTEMBER

September 10 Financial reporting according to the IFRS for the first half of 2010 issued.
September 14 On September 17, 2010, Mosenergo paid the eights coupon yield on the bonds of 01 series (the total size of the issue – 5 billion roubles). Total payments amounted to 288.55 thousand roubles (62.33 roubles per share).
September 27 Tests of electrical equipment of the Unit 8 SGU-420 were successfully conducted at TTP-26 operated by Mosenergo. Two unit transformers and two in-house power supply transformers of the Unit under construction were commissioned.

OCTOBER

October 25 In the framework of contracting the capacity supply agreements, an agent agreement was signed between Mosenergo and "Financial arrangement center" CJSC. The capacity supply agreement covers nine facilities with the total rated power of 2,882.5 MW. Implementation of a number of investment projects of Mosenergo had been already completed by the time of signing the agreement. In 2007-2009, four facilities with the total rated power of 1,341 MW were commissioned (power units of TPP-21, TPP-27 and GTU-TPP in Pavlovsky Posad).
October 26 Mosenergo stopped being a shareholder of "Mosenergo heating company" OJSC.

NOVEMBER

November 10 Financial reporting according to the Russian Accounting Standards for the first 9 months of 2010 issued.
November 18 Mosenergo was declared a winner of the XIII Federal contest of annual reports and corporate websites in the nomination "For best disclosure of information for investors on the website".

DECEMBER

December 3 Mosenergo paid the second coupon yield on the bonds of 03 series (the total size of the issue – 5 billion roubles). Total payments amounted to 255.55 thousand roubles (51.11 roubles per bond).
December 6 The first regulatory audit of the corporate system of ecological management was conducted at Mosenergo. The audit that was carried out by the certification authority "Bureau Veritas Certification" confirmed compliance of the system with the international standard ISO 14001:204. Shares of Mosenergo started to be traded on RTS Standard.
December 9 Mosenergo and Alstom Power signed a Memorandum of understanding, according to which the companies intend to develop combined cycle technologies and integrated solutions for the power units of heating and power plants in order to modernized and renovate the power supply infrastructure of Mosenergo.
December 10 The Board of Directors of Mosenergo decided to call an unscheduled General shareholder meeting of the Company on February 25, 2011 per a request of a shareholder - Department of Property of Moscow. The agenda for the meeting includes election of the new Directorial Board members.
December 21 Financial reporting according to the IFRS for the first 9 months of 2010 issued.
December 22 A series of trial startups with connection of the gas turbine of the Unit 8 SGU-420 to the grid was successfully performed at TPP-26 operated by Mosenergo.

Production

In 2010 Mosenergo generating company operated without serious incidents, having ensured stable operation of the power plants and reliable supply of heat and electricity to the customers in Moscow and Moscow region.

The power plants of the Company generated in 2010 64.97 billion kWh of electricity. In 2009, the generation amounted to 61.7 billion kWh. The increase of generation in the reporting period is mostly attributable to growth of electricity consumption in the Russian Federation.

Electricity generation, mln kWh

Station	2009	2010	Change
HPS-1	390	368	–5.6%
GRES-3	176	207	+1.2%
TPP-8	2,457	2,580	+5.0%
TPP-9	1,243	1,326	+6.6%
TPP-11	1,673	2,020	+20.8%
TPP-12	2,571	2,571	-0.0%
TPP-16	2,329	2,189	-6.0%
TPP-17	579	717	+22.1%
TPP-20	3,899	4,016	+3.0%
TPP-21	9,627	9,891	+2.8%
TPP-22	8,014	7,979	-0.4%
TPP-23	7,704	7,614	-1.2%
TPP-25	7,516	8,167	+8.7%
TPP-26	7,598	8,418	+10.8%
TPP-27	5,973	6,906	+15.6%
TOTAL	61,747	64,969	+5.2%

Heat output, thousand Gcal

Station	2009	2010	Change
HPS-1	1,818	2,013	+10.7%
GRES-3	516	565	+9.5%
TPP-8	2,160	2,259	+4.6%
TPP-9	1,308	1,420	+8.5%
TPP-11	2,368	2,496	+5.4%
TPP-12	3,064	3,455	+12.8%
TPP-16	3,628	3,872	+6.7%
TPP-17	546	579	+6.0%
TPP-20	4,696	4,841	+3.1%
TPP-21	10,653	11,265	+5.8%
TPP-22	9,089	9,271	+2.0%
TPP-23	8,278	8,637	+4.3%
TPP-25	6,592	7,035	+6.7%
TPP-26	7,929	8,704	+9.8%
TPP-27	2,759	3,453	+25.2%
TOTAL	65,406	69,865	+6.8%

The electricity generation at the new generating capacities (SGU-45 units of TPP 21,26, and 27) increased in 2010 by 10.2% to 8.0 billion kWh. The share of the new generating capacities in the total electricity output of the company over the year reached 12.4%.

Load factor of the SGU units in 2010 amounted to 70% (+10%). The company is in the process of optimizing the equipment load.

The amount of heat supplied from the headers of TPP operated by Mosenergo grew by 4.3% in 2010 and reached 69.9 million Gcal – 6.8% more than in 2009. This growth was caused by lower ambient temperatures during the heating season and transfer of heat from RHS in the summer.

Heat generation depends on the average ambient temperature during the heating season and on the duration of the heating season. 88.3 % of annual supply of heat is supplied during the heating season. In 2009, the average annual ambient temperature decreased by 0.3 degrees, whereas the average temperature in the heating season decreased by 2.1 degrees.

Ambient temperature

	2009	2010	Change
Average for the year, °C	+6.8	+6.5	-0.3
Average for the heating season, °C	-0.3	-2.4	-2.1

Capacity factor, %

Capacity factor, electric			Capacity factor, heating		
2009	2010	Change	2009	2010	Change
59.1	62.3	+3.2	39.6	40.2	+0.6

The total installed capacity of Mosenergo amounted to 11,900.08 MW as of the end of 2010.

The average annual coefficient of utilization of the installed nameplate capacity (capacity factor) of the turbines of power plants operated by Mosenergo increased in 2010 by 3.2% and amounted to 62.3%. The main factor that determined the positive dynamics was the increase of electricity consumption caused by weather conditions both in the heating and summer seasons.

The coefficient of average annual utilization of heat capacity from the turbine taps (heat capacity factor) was 40.2%, which is 0.6% higher than in the previous year. Besides the weather conditions, the effect of transfer of the heating loads during summer period from RTS (heating network company) and MOEK to the TPPs of Mosenergo in the amount of 1,287 Gcal, or 1.8% of the total heat supply also played a role in the increase of the heat capacity factor.

The use of reference fuel (oil equivalent) in the reporting year increased by 7.8% compared to the previous reporting period and amounted to 26,722 thousand tons.

In 2010, actual specific consumption of oil equivalent[4] for electricity generation increased by 3% to 252.0 g/kWh, actual specific consumption of oil equivalent for heat supply increased by 0.1% and amounted to 166.0 kg/Gcal.

[4] *Calculated by means of physical method*

Fuel consumption (goe)

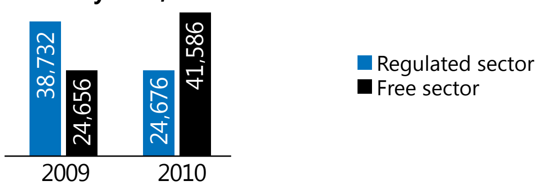
Station	2009	2010	Change
HPS-1	364,332	391,495	+7.5%
GRES-3	141,122	162,276	+15.0%
TPP-8	1,044,673	1,100,556	+5.4%
TPP-9	544,178	583,709	+7.3%
TPP-11	759,090	907,702	+19.6%
TPP-12	1,150,776	1,184,209	-0.1%
TPP-16	1,152,681	1,136,324	-0.1%
TPP-17	312,473	375,637	+20.2%
TPP-20	1,691,449	1,792,283	+6.0%
TPP-21	3,681,842	3,979,127	+8.1%
TPP-22	3,366,835	3,433,952	+2.0%
TPP-23	3,072,882	3,171,246	+3.2%
TPP-25	2,871,984	3,147,078	+9.6%
TPP-26	2,956,464	3,397,144	+14.9%
TPP-27	1,668,076	1,958,806	+17.4%
TOTAL	24,778,857	26,721,544	+7.8%

Electricity generation fuel rate, goe/kWh		Heat generation fuel rate, kgoe/Gcal	
2009	2010	2009	2010
244.7	252.0	165.9	166.0

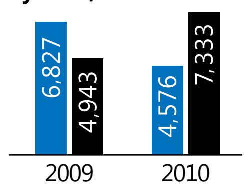
Distribution

The sales of electricity in 2010 increased by 2,873 thousand MWh, or by 4.5% compared to the previous reporting period. The sales of capacity in 2010 amounted to 11,908.5 MW, which is by 139.3 MW or 1.2 % higher compared to the previous reporting period.

Electricity sales, mln kWh



Capacity sales, MW



The increase of the sales of electricity and capacity on the free market compared to the previous year is associated with:

- the increase of the degree of liberalization of the wholesale market (from 30% in the first half of 2009 to 60% in the first half of 2010 and from 40% in the second half of 2009 to 80% in the second half of 2010 exclusive of the share of general public and equated categories of consumers).
- Growth of consumption in the Moscow region by 3.5%.

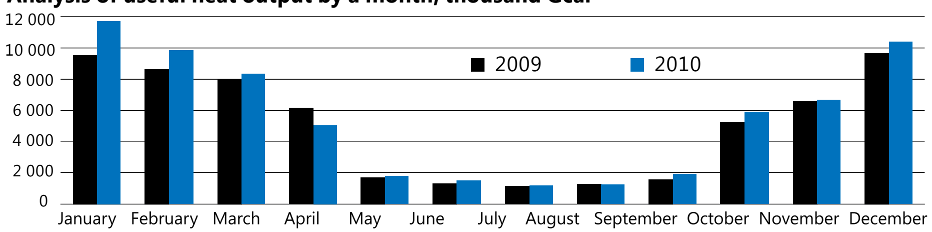
The heat supply in 2010 exceeded the values of 2009 by 4,636 thousand Gcal (7.6%) and amounted to 65,537 thousand Gcal.

This is caused by lower ambient temperature (which was 2 degrees lower during the heating season compared to the heating season of the previous year) having caused the sales to increase by 4.4% and by the increase of the number of subscribers along with implementation of the program of transfer of the load (in winter and summers seasons) from the boiler houses of MOEK to TPPs of Mosenergo, which resulted in the increase of sales by 2.6%.

Sales and revenues from heat output

Parameter	2009		2010		Change	
	thousand Gcal	mln. roubles	thousand Gcal	mln. roubles	thousand Gcal	mln. roubles
Heat output for own consumers	60,901	45,286	65,537	59,697	7.6%	31.8%
Losses compensation	4,929	2,223	4,748	2,610	-3.7%	17.4%
Total heat output	65,830	47,508	70,285	62,307	6.8%	31.2%

Analysis of useful heat output by a month, thousand Gcal



Client base of Mosenergo for heating

Client (client category)	As of 31.12.2009		As of 31.12.2010	
	Share in the useful output	Number of contracts	Share in the useful output	Number of contracts
MOEK (wholesale reseller)	67.9	12	68.5	12
Industrial enterprises (retail)	4.4	644	4.1	609
Public sector organizations (retail)	8.4	1,575	7.6	1,561
Other legal entities (retail)	12.1	4,554	12.0	4,709
General public, housing partnerships and associations etc (retail)	7.2	1,105	7.4	1,127
TOTAL	100	7,890	100	8,018

The client base was expanded by 128 new energy supply contracts. The increase of the share of heat sold by MOEK is due to implementation of the project to transfer the load from MOEK boilers to Mosenergo TPPs for summer and winter periods as well as transfer of the heating substations for the latter to operate.

Mosenergo has heat surplus at most of its plants. Taking into account increasing temperatures during the heating seasons (except for 2009/2010), implemented energy saving policy and minimization of new construction within Moscow boundaries, risks of decreasing heat sales arise.

In order to minimize the effect of these factors, Mosenergo is implementing a project of improvement of efficiency of heating business, within which several key groups of activities are identified allowing the Company to increase sales of heat both in the short term and in the long term perspective.

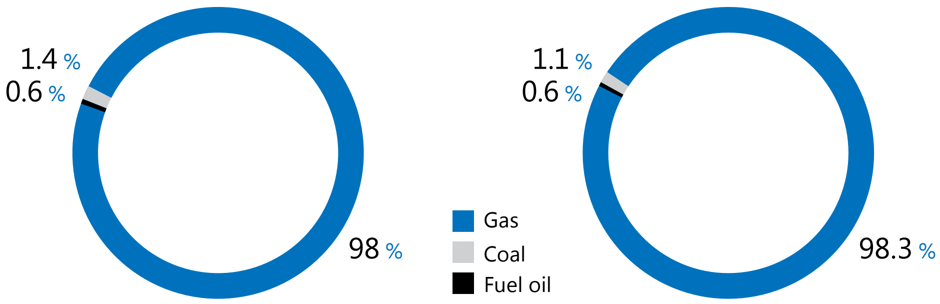
The following actions were taken in 2010 in the framework of this project:

- Transfer of loads from MOEK boilers to the heat sources operated by Mosenergo both in summer and winter periods;
- An agreement on collaboration in heat supply was signed with the administration of Leninsky district of Moscow region (town of Vidnoye, Izmaylovo, Bulatnikovo, and Rastorguyevo townships);
- Negotiations are in progress with the administration of Dolgoprudniy, Mitishy, Lyubertsi, Vostochniy, and Orekhovo-Zuevo towns of Moscow region about supplies of heat from the TPP of Mosenergo (transfer of heat loads from the local heat sources to the sources operated by Mosenergo);
- In order to enhance internal efficiency of work with the consumers of heat, reorganization of relations with the clients from functional to client-oriented organizational structure was initiated; By the end of 2010, all the heat supply departments were transferred to new principles of operation;
- Forsazh-Teplosbit project of implementation of new SAP-ISU software complex was initiated. The implementation is proceeding on schedule. The transition for the new software will take place on April 1, 2011.
- A separate department was established for work with the important potential and major or strategic existing clients.

Fuel supply

Natural gas remains to be major fuel in the fuel balance of 2010. It accounts for 98% of fuel in the Company fuel balance. Coal (1.07%) and fuel oil (0.58%) were used by power plants of Mosenergo as reserve fuels.

Fuel balance structure in 2009 | **Fuel balance structure in 2010**



The structure of the fuel balance changed in 2010 compared to 2009 as follows: the share of burned gas increased by 0.38% whereas the shares of coal and fuel oil decreased by 0.29% and 0.09% respectively.

The increase of the share of gas burnt is associated with the equipment operation modes and with the possibility of using the gas unused in the previous days in the amount of up to 10% above the established daily limit according to the contractual conditions.

Stability and reliability of fuel supply of all the power plants operated by Mosenergo was achieved in 2010 due to:

- supplies of gas in the full amount according to the existing contracts and without limitations except for the period of extreme cold in January, when because of low pressure in the gas transportation system it was impossible to take it in excess of the limits and the reserve types of fuel had to be burned;
- creation of adequate inventories of reserve fuel according to the Decrees and recommendations of RF Ministry of Energy and the Resolutions of the Moscow and Moscow region Governments.

Investment and maintenance activities

INVESTMENTS

The investment program is formed based on the principles of economic efficiency of capital investment, transparency of the purposes and consistency with the production targets and Company strategies.

In the framework of the investment projects of the Strategic category from the investment program of 2010, the following major new construction projects were carried out:

- TPP-26. "Turnkey" construction of SGU-420 unit 8 by Alstom concern. The total heat capacity is 230 Gcal/hour, electric capacity – 420 MW. The unit is to be commissioned in 2011.
- TPP-12. Construction of a SGU-220 power unit. The total heat capacity is 120 Gcal/hour, electric capacity – 220 MW. The SGU-220 unit is to be commissioned in 2013.
- TPP-16, 20. Construction of SGU-420 units. The total heat capacity is 230 Gcal/hour, electric capacity – 420 MW. The SGU-420 unit of TPP-16 is to be commissioned in – 2013, SGU-420 unit of TPP-20 – in 2014.
- TPP-9. GTE-65 gas turbine with a waste heat boiler. The capacity of the facility is 62.2 MW. Efficiency of the electric turbine – 35.2%. The unit is to be commissioned in 2012.

Implementation of the investment program in 2010[5]

Project category	mln. roubles net of VAT
Strategic	2,607
Efficiency	249
Reliability	2,573
Compulsory	327
Other	672
TOTAL	6,430

In the framework of the investment projects of the "Efficiency" category from the investment program of 2010, implementation of fluid coupling on the pump drives in eleven affiliates was performed. Implementation of the hydraulic coupling on the pump drives allows decreasing electricity consumption of the pumps in the partial load operation modes.

In the framework of the investment projects of the "Reliability" category from the investment program of 2010, the following activities to enhance reliability of major equipment were performed:

for electrical equipment:

- replacement of fourteen 110-500 kV switches;
- replacement of the current transformers on 15 phases of TPP-21, TPP-26, TPP-27.

for thermomechanical equipment:

- replacement of steam pipelines on 6 turbines and 9 power boilers (TPP-8, 12, 16, 20, 23, and 25). Total 634 t.;
- replacement of high-temperature heating surfaces on 11 power boilers (TPP-8, 17, 22, 23, 25, 26). Total 614.8 t.;

[5] *Information from Mosenergo Management Report.*

In the framework of the investment projects of the "Compulsory" category from the investment program of 2010, the following major activities were carried out:

- Creation of the corporate automated ecological monitoring systems and organization of transfer of the data to Mosecomonitoring SUE at TPP-9, 11.
- Implementation of gas analysis complexes for monitoring harmful releases from 9 power boilers (HPS-1, TPP-8, 9, 12, 21).
- Renovation of gas and fuel oil pipes in order to bring them into compliance with the "Safety rules for gas distribution and gas consumption systems" at the GRES-3, TPP-8, 9, 21, and 22.
- 21 investment projects intended to enhance fire safety of Mosenergo affiliates.

In the framework of the investment projects of the "Other" category from the investment program of 2010, replacement of 5,190 line meters of district heating pipelines was performed.

Technical renovation and modernization of the equipment of the Company affiliates will allow maintaining high level of safety, reliability and economic performance and increasing sales of electricity and heat.

MAINTENANCE AND REPAIRS

During 2010, the Company was preparing for implementation of the maintenance module of the corporate information management system SAP. In December 2010, operation of the module was successfully started at three power plants – affiliates of Mosenergo: TPP-11, 21, and 23.

The project is based on a fundamentally new approach to maintenance planning and implementation – transition to organizational agreements with payment for man-hours actually worked.

Based on the accomplished systems analysis of damageability, groups of equipment requiring special attention in terms of maintenance and servicing were identified. A program of prevention of incidents and technology violations was formulated and partly accomplished in the second half of 2010, its implementation is scheduled to continue in 2011-2013.

Implementation of the maintenance program in 2010:

Equipment	Major overhaul	Medium maintenance	Routine maintenance
Units	3	2	15
Boilers	14	9	75
Turbines	11	6	66
Gas turbines	0	0	12
Steam and water pipelines	6	0	99
Waste heat boilers of SGU-450 unit	-	-	8
Gas turbines of SGU-450 unit	-	-	9
Turbine generators of SGU-450 unit	-	-	4
Generators	14	7	
Transformers	8	-	69
110-500 kV switches;	5	4	

All the programs of maintenance of thermomechanical and electrical equipment were fully accomplished in 2010 within the scheduled timeframe and allocated budgets, according to the approved maintenance plans.

Scope of the major non-routine maintenance activities with thermomechanical equipment

Activities	2009	2010
Industrial maintenance of turbine rotors	9	15
Replacement of the turbine blades/disks	14	30
Including the reserve assembled rotors	0	2
Replacement of the turbine wheelspace components	1	2
Implementation of the forced steam cooling system for medium-pressure rotors (RSD-1) of T-250/300-240 turbines	1	1
Replacement of bearings in the lower support of the regenerating rotary air heaters	4	7

All the scheduled tests and diagnostics of metal state were fully implemented in 2010

Equipment	Special tests of main and auxiliary thermomechanical and electrical equipment	Routine in-service inspection of metal of thermomechanical equipment
Power boilers	11	45
Boiler drums	10	7
Turbines	2	17
Steam pipelines	43	143
Generators	9	-

For 12 generators, rotor maintenance was performed with dismantling and diagnostic of the rotor retaining rings.

During routine maintenance of transformers, the 220 kV oil-filled entrance bushing of T-10 of TPP-20, T-95 and AT-93 of TPP-21, T-98 of TPP-23, T-91 of TPP 26 the and 500 kV entrance busing at T-96 of TPP-26 were replaced for bushing with RIP-insulation. Similar replacement of 500 kV inputs was performed at T-97 of TPP-25 in the framework of the investment program.

Diagnostics of 23 transformers with expired lifetime or operated without a major overhaul for more than 12 years was performed and measures were taken to eliminate the identified deficiencies.

Scheduled routine maintenance of buildings and structures performed in 2010 at the affiliates of the company included the following major activities:

- maintenance and inspection of 19 exhaust stacks (37 stacks in 2009);
- cooling tower renovation (cooling tower 4 of TPP-20);
- maintenance of 17 fuel oil tanks (21 tanks in 2009).

Total duration of maintenance of the main equipment of the Company in 2010 amounted to 9,700 days (9,388 days in 2009).

Type of maintenance	2009	2010
MO	1,864	2,522
MM	674	600
RM	6,558	6,436
RM 2	242	142
∑duration	9,338	9,700
Conservation	3,913	4,061
Servicing	391	1,658
Renovation	512	590
Total scheduled	14,154	16,009

Enhancement of production reliability and efficiency

In 2010, Mosenergo continued the efforts to enhance production efficiency and reliability: Implementation of the "Lean production" project was proceeding according to the approved plan; the project of creation of a unified service for the technical audit, industrial safety and environment protection (see paragraph 4.4 for more details) was completed; extensive staff drills were conducted to exercise the transfer of equipment to reserve and emergency types of fuel.

Presently the project is complete at the TPP-11, -21, -23, and -25; TPP-8, -20, and 27 are in trial operation. Methodology and tools for lean production fully adapted for the power industry have been developed and approved, over 400 employees underwent training in principles and methods of lean production. The main results of the implementation of the "Lean production" project in 2010 are as follows:

1. Deviations of key technical and economic parameters of operation from the normal values were reduced by more than 30%.

2. New organizational structure of management of TPP-11, -25; -8, -20, and 27 was implemented.

3. New automated system of management of personnel efficiency at TPP-11, -21, and -25 was implemented.

4. The process of generation and implementation of the proposals for technical innovation and improvement of operation efficiency was established.

5. The process of planning of the power equipment maintenance was standardized.

6. The economic effect from the implementation of the "Lean production" project in 2010 amounted to 344 thousand for TPP-11, -21, -23, and -25.

Mosenergo intends to implement the "Lean production" project at all the power plants by 2012. The ongoing efforts are aimed at substantially reducing the number of incidents and equipment failures in the long term perspective due to better quality of planning and organizing maintenance activities, as well as at improving the technical and economical performance of the plants due to operation of equipment in more economic modes.

Energy saving program

According to the requirements of the Federal Law № 261-FZ of 23.11.2009 "On energy saving, enhancement of energy efficiency and making amendment to several statutory instruments of the Russian Federation" and Moscow Government Decree of 22.12.2009 № 1499-PP "On the progress of implementation of the municipal targeted program "Energy saving in Moscow for the period of 2009-2011 and for the perspective until 2020", Mosenergo has produced and approved a "Program of energy saving of Mosenergo for the period of 2010-2015".

The energy efficiency performance of Mosenergo in 2010 was determined by the results of implementation of the energy saving measures planned by the affiliates for the year.

The following energy saving measures was taken in 2010:

- routine operational activities associated with improvement of leaktightness of furnaces, gas conduits of the boilers and vacuum systems of turbines, treatment of condenser and heat exchanger tubes and conservation of equipment;
- measures associated with optimization of the load and operating modes of power plant equipment;
- measures derived from the results of tests of the major and auxiliary equipment aimed at efficiency enhancement;
- maintenance and repair works associated with implementation of the Company production program.

As a result of implementation of energy saving measures in 2010 Mosenergo achieved total saving of fuel and energy resources in the amount of 57 thousand tons of oil equivalent, or 148 million roubles. Total expenses for the implemented energy saving measures amounted to 172 million roubles.

Essential component of the energy saving policy is the program of energy assessment, which results in the estimation of the potential energy efficiency of operation of a power plant. Starting from 2008, Mosenergo started another cycle of follow-up energy assessments. In the reporting year, scheduled energy assessments were performed at the following affiliates of Mosenergo: HPS-1, TPP-9, TPP-16, TPP-20, TPP-21, TPP-22, and TPP-27.

Mosenergo is a constant member of the energy saving program of Moscow, annually contributing to improvement of effectiveness of the use of energy resources.

Taking into account the expenses for energy assessments, total expenses for the year amounted to 180 million roubles.

Indicators of performance of the energy saving program

Parameter title	Measurement unit	Value
Fuel and energy resources saved by means of implementation of energy saving program, total	thousand tons of o.e.	56.97
Electricity saved, total	mln. kWh	93.73
including the savings due to reduction of consumption for:		
in-house power supply of power plants	mln. kWh	93.73
Heat saved, total	thousand Gcal	44.45
Fuel saved, total	thousand tons of o.e.	25.64
including by fuel type:		
coal	thousand tons of o.e.	0.34
gas	thousand tons of o.e.	25.16
fuel oil	thousand tons of o.e.	0.14
The cost of fuel and energy resources saved by means of implementation of energy saving program	thousand roubles	147,957
Fraction of the cost of saved energy resources from the overall cost of the used fuel and energy resources	%	0.21

SAP and «Effective communications» projects

Mosenergo continues implementing a three-year program of "Change of management standard and implementation of CIS[6]. This program initiated in February 2009 is intended to improve management quality, optimize business processes and create a unified corporate information system. The first stage, titled "Forsazh" ("afterburner") served as a foundation for the subsequent implementation and was accomplished exactly on schedule - by January 2010: SAP solutions implemented for management of procurement processes, inventory, sales, managerial accounting and budgeting, financial and fiscal accounting, investments, liquidity and credit management.

The effect of implementation of the first stage of the project (as of 31.12.2010)[7]:

Parameter	Total, mln. roubles per year
Decrease of the cost of advance payments for income tax	17.7
Increased productivity of the accounting department employees	240.0
Offsetting with counteragents (supplier/customer)	3.5
Tightening of policy related to payment for service of suppliers	21.8
Reduction of the expences for auditing	8.6
Increased productivity of the investment management department employees	18.0
Decrease of procurements due to use of information about warehouse inventories	21.4
TOTAL	331.0

2010 was a transformation benchmark: strategies were formalized, their implementation was monitored and consistency of the system with the new processes verified. The key objective of the project team at this stage was to improve the processes of planning and control of equipment maintenance as well as of heat sales. Integration of the SAP-Maintenance and IS-U modules into the existing SAP-landscape of Mosenergo was performed in the framework of the projects titled "Forsazh-Maintenance" and "Forsazh-Heat sales".

Implementation of the "Maintenance" module is performed in close collaboration with the "Lean production" project: in 2010, the template of the solution was adapted for the General directorate and for three «lean" power plants TPP-11, TPP-21, and TPP-23, organizational structure of which had already been changed for the model without workshops.

A unified equipment reference book was created, which is essentially a history folder with information about cost of repairs, maintenance, and component failures. In 2011 the Maintenance module will be replicated for the remaining power plants - the experience accumulated by the pilot power plants will allow maximizing the effectiveness of transformation of the maintenance management processes. As a result of implementation of the Forsazh-Maintenance project, transparency of planning processes, accounting of maintenance expenses and interactions with the contractors and suppliers was increased, processes of planning and monitoring the load of production facilities for the maintenance purposes were optimized, and inventory management was improved due to improved process of demand determination. Henceforth it will result in increased availability of the facilities due to more accurate maintenance planning, reduction of the maintenance campaigns and number of failures and accidents due to proactive planning of maintenance based on equipment significance and performance.

The scope of Forsazh-Heat Sales project included sales and marketing, customer service, calculations of heat consumption and charges, management of receivables and settlement of disputes. The key changes of these processes wer supported by the industry solution SAP for Utilities (IS-U). As a result of implementation of the project in 2010, Mosenergo established a continuous controllable process of interaction with the heat consumers: from search for new clients to improvement of service quality.

The last stage of the three-year program of «Change of management standard and implementation of CIS» will be optimization of system performance. In 2011 the assets and generating capacities of Mosenergo will be systematized, the management processes for maintenance, generation and distribution transformed and transition to managing Company assets on the basis of effectiveness will be made.

Transition to "effective communications"

Substantial changes in the processes of exchange of business information within Mosenergo have been made in the framework of the "Effective communication" project initiated in July 2010. The

[6] *CIS - here Corporate information system*

[7] *the effect was estimated for key areas as a result of additional analysis. The estimation of the effect was obtained based on the expert judgment of the managers of appropriate subdivisions.*

project is aided at substantially reducing the time used for production and approval of documents and decision making, reduction of the number of kinds of information media, reduction of expenses for paper, printing, copying and scanning of internal documents and of the number of intermediaries in the process of information exchange. Transition to a common platform allowed optimizing the cost of IT support.

The project was developing in two directions: pursuant to the introduced "Policy of internal communications of Mosenergo", new principles of business communication were formalized, procedures of internal communication transformed and corporate standards of information exchange established. The Company started to employ the principles of cross-functional interaction of departments, electronic approval and authorization of documents. Besides that, over 3,500 employees received state-of-the-art communication tools (the project became one of the largest projects in terms of the number of users): a corporate communicator installed on every computer allows easily arranging video conference calls and presenting any materials to the participants, transferring into electronic form the applications for standard services substantially simplifies their processing, approval and implementation, and unified corporate address book provides always accurate and current contact information. Large scale implementation of the electronic digital signature (EDS) instrument, which allowed transferring internal communications from paper form into electronic circulation was a substantial improvement.

"Lean production" project

Igor Fedorov
chief specialist of the Electrotechnical Service of TPP-21

The "Lean production" project covering the entire production cycle was initiated in 2009 for TPP-23. Its implementation is designed for improvement of reliability and efficiency of power plant operation, reduction of the number of incidents and equipment failures, and impovement of technical and economical performance.

After the pilot plant – TPP-23 – implementation of the "Lean production" project started at TPP-21. As a project manager in that affiliate, I take part in the daily meetings of the senior managers of the plants in the production system Directorate. Besides that, a working group consisting of six individuals who combine the activities within the "Lean production" project with their main job was established at TPP-21. The group handles the areas of maintenance, planning, identification of root causes of deficiencies and deviations, training, operation, generation and implementation of ideas, and thus is working in close contact with the personnel of the entire affiliate. Besides that, interaction with similar working groups of other power plant was arranged.

At the first stage of implementation, the organizational structure of TPP-21 was somewhat different from the structure of other affiliates of the Company. The major difference was that the maintenance department of TPP-21 was also involved with planning and accepting all the work – having thus deprived the technology department of some of its natural responcibilities. This resulted in duplication of lines of responcibility – two different departments were working to achieve one goal. Therefore, we returned to a more traditional system which includes two major departments – technology and operations. In addition to them there is a maintenance department, which is no longer responsible for planning and other strategic tasks.

TPP-21 has a fairly large amount of equipment in operation – three construction stages, two major workshops. Accordingly, transition from workshop to functional organizational structure was more difficult to achieve than for other power plants operated by Mosenergo. Another global task from the standpoint of organizational structure was a merger of two power plants – TPP-21 and TPP-28. These tasks have been presently solved.

Like in case of implementation of any other new initiative, some part of the plant personnel was initially rather skeptical about the "Lean production" project. However, it did not take them long to grasp the point of the project and see its benefits. Prior to commencement of the project, an "Academy of lean production" was organized. Now, when we implement or revise a standard or we provide necessary explanations and arrange topical briefings for personnel.

For me personally, participation in the "Lean production" project allowed to refresh my professional knowledge – in my time I studied many things, but not all of them by far were needed for performing my professional duties. When a new standard is developed, it needs to be analysed and assessed taking into account the fact that "Lean production" covers the entire production process. Therefore, I had to deeply delve into all the aspects of equipment operation – not limited to my "favorite" electrical components, but also including the thermomechanical ones. Therefore, this project gave myself and working group memvers a lot in terms of erudition and professional development. Besides that, the employees of the affiliates participating in the project are no longer isolated from colleagues. Regular meetings and workshops are arranged to exchange information and experience and to get to know each other better.

SLPE service

Dmitry Maskin
Deputy head of labor protection
and fire safety Service

I am fairly new to the Company – I was invited to work in the newly established service of safety, labor protection and ecology (SLPE) in the middle of 2010. I gladly accepted the invitation. Before that I used to work in the nuclear power industry – in particular, I was a head of the labor protection department of Rostov NPP. Back then we were implementing many innovations in the area of safety and labor protection that have been already in place in Mosenergo. Accordingly, I was always of a high opinion about the level of safety culture and labor protection in the company. Therefore, I was very interested to take part in implementation of this project for the sake of extending my own knowledge and developing professional skills. Today I can confidently say that it was a right decision, since every day I work in Mosenergo is teaching me something new.

Labor protection activities in Mosenergo have some unique features. Amoung them, the audits of power plants organized by SLPE service that are performed twice a quarter at each plant should be mentioned. The first of the two audits has a purely consultative nature. At this stage, generic drawbacks in the labor protection area are identified. Based on its results, a list of measures to be implemented by the plant is being produced. The second audit is more of appraisal nature. During this audit, the labor protection service is assessing how the plant coped with the task of complying with the recommendations given. Based on the results of quarterly audits, SLPE service participates in evaluating the key performance indicators (KPI) for managers and chief engineers of the plants, directly affecting their incentives.

The service is intended to establish a maximally transparent structure for all the violations related to labor protection – both technical and organizational to be visible. It should be admitted that previously not all the information from the production affiliates used to reach the Generatl Directorate. Now this is changing. Mobile labor protection brigades have been established that are not subordinate to the management of affiliates. Their work helps identifying such violations that used to be latent in the past – mainly those committed by the contractors, because overall industrial standards of Mosenergo are substantially higher than average.

I cannot say that at the stage of implementation of the new system we encountered any insurmountable difficulties. Most of the plant managers accepted the innovation in quite a constructive manner. We managed to avoid total control which used to be a hallmark of the labor protection system in the past, and rely substantially on self-control. Our colleagues at the plants realize that their daily work to improve labor coditions and labor protection is reflected in positive results of our audits.

A major complication today is the outdated regulatory documentation. We are now actively working on making all the regulatory documents, codes and stadards consistent between different affiliates. In my opinion, unification of the regulatory bases is a key to improvement of quality of operation of Mosenergo as a whole.

There has been about one year since a separate service was organized in the structure of Mosenergo to be responsible for labor protection, industrial safety and ecology issues. Over this period of time, a team was formed in the organization that in my opinion is coping with the tasks it is facint. Our manager, deputy General Director for for labor protection, industrial safety and ecology picked up into the team the individuals that are perfectly complementary to each other. We are seing positive dynamics – improvement of the situation with labor protection and industrial safety in the Company. It appears to me, that the approach to the labor protection system implemented in Mosenergo has a bright future and good prospects in terms of increaseing efficiency of operation of the Company.

Analysis of financial results

REVENUES

The revenues from sale of marketable products (before VAT) in 2010 amounted to 143.8 billion roubles, including 141.2 billion roubles from sales of electricity and heat, and 2.6 billion roubles from other goods and services.

Compared to 2009, the revenues from selling marketable products increased by 28.2%, revenues from sale of electricity – by 35.1%. The growth of revenues was mostly due to growth of electicity and heat tariffs, as well as from the increase of the amount of capacity sold due to commissioning of new combined cycle plants. Decrease of other industrial revenues is associated with disposal of non-core businesses of the Company.

PRIME COST

The prime cost of commodity products of Mosenergy in 2010 was 134.1 billion roubles, including prime cost of energy of 131.3 billion roubles and prime cost of other products of 2.8 billion roubles.

The prime cost of the core products increased by 27.5%. The prime cost before depreciation and amortization of property, plant and equipment increased by 23.4% (from 95.3 billion roubles to 117.6 billion roubles).

The increase of expenses in 2010 was mostly caused by the increased cost of fuel. The expenses for fuel primarily increased due to the growth of the cost of gas by 27% and increased heat and electricity sales due to colder weather having caused larger consumption of fuel.

Total costs of maintenance of power plants in 2010, including the maintenance by own maintenance departments was 4.9 billion roubles, or 3.5% of the total energy generation cost.

Expenses for personnel increased insignificantly: from 8.5 billion roubles in 2009 to 8.6 billion roubles in 2010 (growth by 70 million roubles or 1%).

The increase of expenses for heat transmission (6.2 billion roubles) is associated with increased transfer of heat by 8% and increase of the tariff for this service in 2010 by 24%.

On the whole, the rate of growth of operating costs was essentially equal to the rate of growth of revenues (27.5%).

EBITDA in 2010 was 21.0 billion roubles, which is 3.2 billion roubles more than in 2009 billion roubles (by 18%).

OTHER PROFITS AND EXPENCES

The income from disposal of property, plant and equipment in 2010 was lower than in 2009. An extensive program of disposal of property was implemented in 2009, whereas the disposal of the objects planned for 2010 was postponed until 2011.

The profits from sales of securities and other financial investments increased by 208.7 million roubles, mostly at the cost of the sold share in TEK Mosenergo.

NET PROFIT

Net profit of the Company after profit tax and other compulsory payments was 7.6 billion roubles. Compared to 2009, net profits increased by 69%.

According to the item 8 of the Company Charter, mandatory annual allocations to the Reserve funds amount to 5% of the net profit until the reserve fund reaches the established size (5% of the Charter capital of Mosenergo).

LIQUIDITY AND CREDIT PORTFOLIO MANAGEMENT

The inflow of cash from operations in 2010 was higher than in 2009 by 33%.

No changes of the structure of borrowed capital occurred in 2010. The credit portfolio of the Company decreased in 2010 by 1,941 million roubles. This reduction was associated with the following:

- redemption of the face value of the bonds of the BO-02 series in the amount of 2,000 million roubles on August 26, 2010;
- change of euro exchange rate to rouble.

The weighted average interest rate for the borrowed funds in 2010 was 9.24% per year, which is 3.08% less than in the previous year.

This decrease of the interest rate was caused by stabilization of the situation on the domestic and international financial market and change of the structure of the credit portfolio towards larger share of long term credits with lower interest rates.

The Company does not have any overdue debts. The Company fully complies with the covenants of the credit agreements: the ratio of debt to profits before interest, profit tax and depreciation is less than 1.

ANALYSIS OF THE BALANCE STRUCTURE

The property, plant and equipment as of December 31, 2010 decreased by 4,725 million roubles compared to December 31, 2009 (from 131,628 million roubles to 126,903 million roubles) or by 3.6%.

The change that occurred over the reporting period was caused mostly by almost twofold excess of the amortization and depreciation accrued during the year over the cost of new commissioned facilities.

The structure of current assets is dominated by: accounts payable – 50%, short term financial investments – 34%, and inventories – 9%.

The current assets of Mosenergo increased in 2010 by 15,686.7 million roubles, mostly at the expense of the change of the amount of payables.

Short term financial assets also increased due to 24.5 billion roubles of unallocated funds having been deposited. This amount mostly occurred after repayment of a loan issued and from the revenues from operations.

The increase of inventories was mostly due to larger amount of reserve fuel as of the end of the year by 1,877.9 billion roubles.

The payables increased insignificantly – by 261.5 million roubles or 0.7%.

The Company is continuously striving to strengthen the financial discipline of the customers and to collect overdue payables for the energy supplied.

Advance payments decreased by 2,077.3 million roubles over the reporting period due to completion of construction of new units at the TPP-26.

Own capital of Mosenergo increased by 6,184.6 million roubles mostly due to increased net profit and the results of revaluation.

The accounts payable increased in comparison with 2009 by 3,453.1 million roubles or by 24.3%, mostly due to increase fuel prices and heat transmission tariffs. The share of the accounts payable in the Company balance was 8% as of the end of the reporting year (7% in 2009). All the debt is current, having occurred according to the contractual covenants.

ANALYTICAL COEFFICIENTS CHARACTERIZING THE FINANCIAL STATUS OF THE COMPANY

As of the end of 2010, insignificant changes of the absolute and current liquidity coefficients occurred compared to 2009. Stability of these parmeters is explained by lack of changes in the structure of the Company credit portfolio.

The cost of net assets of the Company increased due to the increase of current assets.

The growth of the capital turnover coefficient is caused by high rates of revenue growth.

The accounts payable turnover coefficient increased due to the rates of revenues in 2010 having been highter than the rate of growth of the accounts payable.

Average grand total assets of Mosenergo increased by 4.7% compared to 2009. The revenues from sales of the product increased by 28.1% compared to 2009.

The profit margine increased insignificantly, since the growth rate of revenues was only slightly higher than the growth rate of the prime cost.

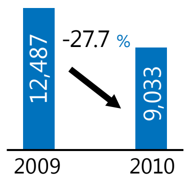
Social responsibility

PERSONNEL MANAGEMENT AND SOCIAL PROGRAMS

Personnel numbers and structure

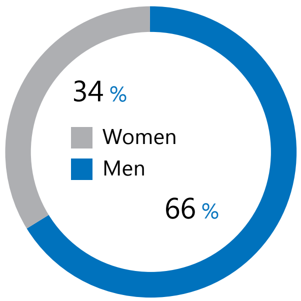
The average stuff of the company in 2010 was 9,033 employees, which is 3,454 employees less than in the previous reporting period (12,487 employees in 2009). As of December 31, 2010, Mosenergo stuff was 8,311 employees.

Average stuff numbers



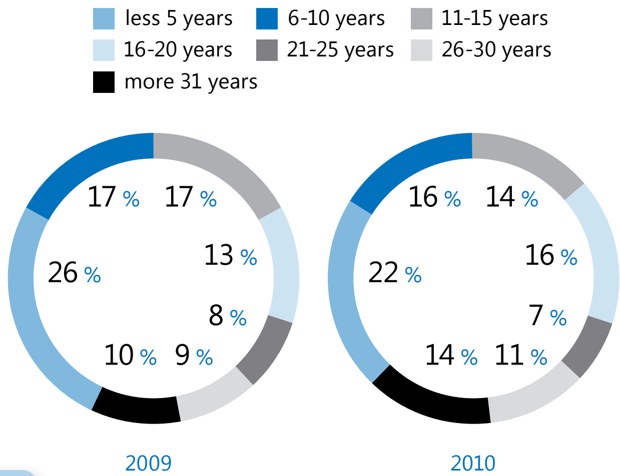
The following factors affected the change of stuff number:

- introduction of functional organizational structure at some of the power plants, centralization of the administrative and auxiliary functions in the general directorate of Mosenergo;
- reorganization of the maintenance and other affiliates, increased scope of contracted maintenance, separation of power transmission and motor transportation functions;
- Reorganization of the non-core asset management system: disposal of a number of non-core assets (rehabilitation center, canteens, agricultural facilities).



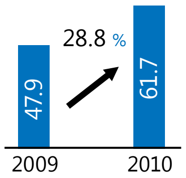
Stuff structure, %

Structure of personnel by the period of employment in Mosenergo

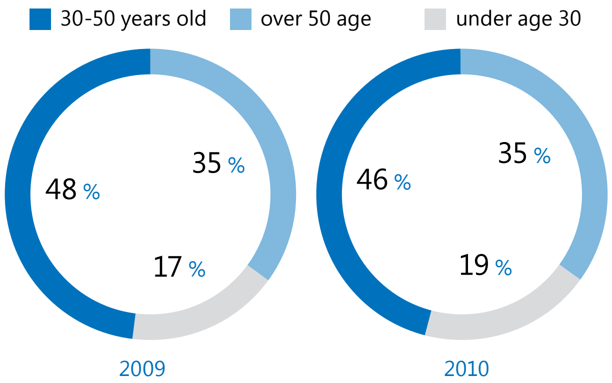


Average monthly wages of the own personnel of Mosenergo in 2010 was 61.7 thousand roubles, which was 28.8 % higher that in the previous year.

Average monthly remunerations per employee, thousand rubles



Structure of Mosenergo stuff by age



The fraction of Mosenergo employees younger than 30 years increased in 2010 by 2% to 19% (from 17% in 2009).

Educational level of Mosenergo employees is relatively high. 3,452 employees or 41% of the Company stuff have univercity degrees (34.7% in 2009); 32% of the stuff are vocational school or college graduates (25.6% in 2009).

System of incentives for personnel

Implementation of new principles of stuff motivation continued in 2010. Establishing transparent and flexible system, ensuring clear correlation between the remuneration of employees and the results of their work are the key objectives of the company policy.

In 2010, a system of material incentives for Mosenergo managers based on key effectiveness indicators was implanted.

The system of bonuses applies to power plant and general directorate managers.
The assessment of fulfillment of the objectives for all the key performance indicators is made with the use of standard form of assessment of manager effectiveness. The objectives are concatenated and measurable.

Social programs

Social policy of the Company implies responcibility of Mosenergo as a reliable Employer toward its employees. Mosenergo pays a lot of attention to maintaining health of the employees, each of whom is insured for occupational injures. Payments on the insurance agreements are commesurate with the harm inflicted to the health of the insured and is intended to help him and his family adapt to reduction of income associated with the injure.

The program of Voluntary medical insurance is another important component of the social package of Mosenergo provided to the employees and oriented at maintaining their health. Medical services are provided to the employees by high ranked medical institutions located in Moscow and Moscow region.

Corporate Olympics of Mosenergo took place in 2010. Over 700 employees of all the affiliates of the Company participated in competitions in dosens of different kinds of sports. A collective team of Mosenergo for participation in the Olympics of Gazprom was formed based on the results of the Company competitions.

A program of non-state pension plans for the employees is in place in Mosenergo. In 2010, 66 employees of the Company were its members.

On May 9 of 2010, the participants of the Great Patriotic War received material assiatance in the amount of 40,000 roubles, veterans of labor – 25,000 roubles. Total of 935 veterance have received the assistance.

A collective agreement between Mosenergo as an employer and the employees represented by their trade unions based on the Labor Code of the Russian Federation was signed in 2010. The agreement is based on the principles of equal rights, respect and account for rights and legal interests of the parties of the social partnership of Mosenergo, freedom of choice, legitimacy, justified responsibilities and compulsory compliance.

According to the current Provisions for organization of the recreation of the children of Mosenergo employees, 182 children went to the summer camps in the southern regions and 124 children – to the camps of Moscow region at the expense of the Company.

Personnel training and development

The first annual assessment of personnel with the aid of an automated system specially developed for Mosenergo was conducted in 2010. Due to automation of this process, it became possible to unite all the employees taking part in the assessment regardless of their location and to arrange effective communications betweent the managers and their subordinates. Automated system also allows storing and accumulating the information about employee performance.

The results of assessment conducted in 2010 will be used for planning professional development and carrier of the employees. In 2010, Mosenergo continued the efforts related to personnel training, requalification and qualification upgrade. 3,451 workers and 2,424 managers and specialists went through training and qualification upgrade. Besides that, over 400 Company employees received targeted training in relation to implementation of SAP-Maintenance system.

In the framework of the “Lean production” project, sessions of ”Academy of Lean Production” are arreanged at the power plants with the main objectives of teaching the plant personnel to understand the basics of ”lean” technologies.

In 2010, a program of development of management skills based on the corporate model of competencies of Mosenergo was initiated. In the framework of the program, over a hundred managers were trained in different disciplines.

From January to August 2010, a multi-stage specialized educational program to train the employees to operate SGU-420 units was implemented in Mosenergo. The training courses were conducted at the Mosenergo Qualification Upgrade Center and at TPP-26 by the insructors of Alstom company. A group of 8 technical specialists of Mosenergo undertook an internship at the facilities of Alstom company in Switzerland and France for two months.

LABOR PROTECTION

Two industrial accidents occurred to the employees of the Company over the reporting period, one of them with the turbine field operator of TPP-22 resulted in fatality caused by falling from elevation during boiler washdown.

The main cause of the accident was a violation of the safety procedure by the casualty who left the limits of the fenced site and insufficient control of compliance with the safety requirements from the workshop administration.

The Company personnel were informed about the results of investigation of the accident. The officials who allowed the violations to take place were penalized, up to and including discharge. They underwent unscheduled certification for the knowledge of labor protection rules and requirements.

In order to enhance labor safety and employee health protection and decrease the risk of recurrence of such events, the Company management undertook structural changes: a service for safety, labor protection and ecology independent of the technical service and plant directors and reporting directly to the CEO was established.

Training and certification of employees was centralized within the personnel management service.

Operation of medical aid stations was transferred to a licensed company.

In order to enhance motivation and involve the managerial, administrative and technical personnel into labor protection and accident prevention activities, the safety, labor protection and environmental unit introduced a quarterly in-depth audit of all the power plants of Mosenergo by mobile brigades of the labor protection and fire safety service of the generatl directorate rating the plant performance as a result of such audits.

Also, the bonuses of managerial and admininstrative personnel of power plants was made dependent on the audit results and coefficient of the frequency of industrial incidints with stuff and contractros.

Analysis of risks was performed and strategic program of labor protection activities for 2011-2014 was produced.

Most of the measures from the "30 Program" – a program of simple visible initiatives aimed to enhance labor protection – have been implemented. Thus, standard section about penalties for violation of labor protection routines was introduced into contractual agreements with contractor organizations. Materials for claim resolution were provided to the legal department.

Field meetings of the company management, power plant managers and specialists were conducted to discuss the occurred incidents and the shortcomings identified by the audits along with the measures for their elimination.

Industrial safety posters were produced and posted at all the power plants.

Independent inspectors were hired by most of the power plants to identify violations of the industrial safety requirements by the employees and contractors, which significantly decreased the number of violations and increased the responsibility of the administrative and managerial personnel.

Monthly "Days of industrial safety" are taking place at the power plants. Weekly information leaflets of the the safety, labor protection and environmental unit are circulated to all the plants, display stands with visual information about occupational injures are installed at all the plants.

The Company stuff is informed about the industrial safety counseling phone line; the representatives of the industrial and fire safety departments conduct mandatory investigations based on all the calls to these telephones and eliminate the identified deficiencies.

No fires reportable to state statistic committee occurred in the reporting period.

Expenses for fire and industrial safety, million roubles[8]

Cost category	2010
Expenses for the measures to enhance occupational health and fire safety, including:	178
measures to enhance accident and occupational disease prevention;	91
measures to enhance fire prevention;	87

ENVIRONMENT PROTECTION

Mosenergo maintains productive cooperation with the Russian organisations, scientific and educational establishments successfully working in the field of environmental protection and environmental safety. Environmental issues are resolved in close cooperation with public authorities authorised to regulate conservation activities of enterprises in the Moscow Region.

In 2010, Mosenergo's expenditure on conservation activities amounted to 166.4 mn roubles.

Mosenergo's Expenses for environmental protection activities, thous. Roubles

	2007	2008	2009	2010
Activities of non-capital nature (prime cost)	102,143	86,064	58,781	45,628
Activities of non-capital nature (non-sale expenses) -	-	-	-	177
Waste recycling (prime cost)	-	-	43,192	47,752
Investment activities	94,060	97,031	52,628	72,843
Environmental surveys	12,116	10,852	-	-
Equipment which does not require assembly	1,946	1,381	-	-
TOTAL	210,264	195,327	154,601	166,400

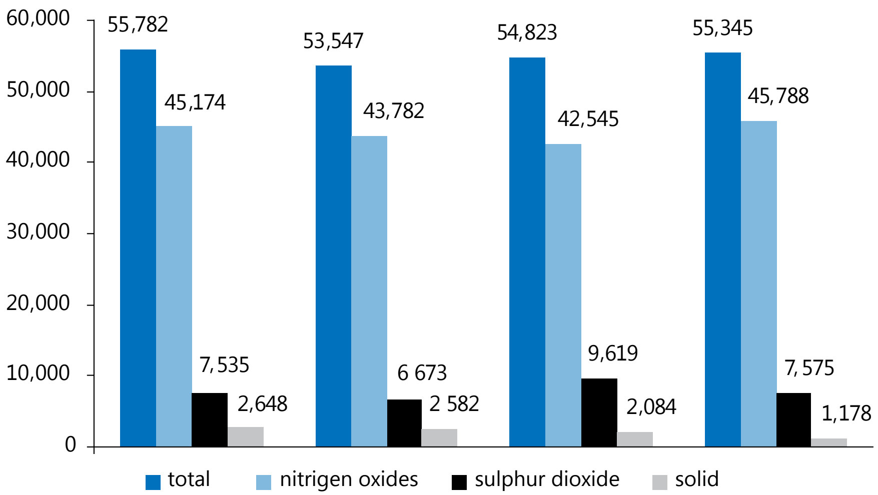
[8] *Information from Mosenergo Management Report.*

The Company's measures for environmental protection in 2010 resulted in:

- emissions of pollutants from the Company power plants increased in 2010 compared to 2009 from 54.8 thousand tons to 55.3 thousand tonnes (or by 0.9%), including the following changes of emission components;
- the quantity of nitrogen oxides emissions went up from 42.5 thousand tons to 45.8 thousand ton or by 3.3 thousand tonnes (7.8 %);
- the quantity of oxygen dioxide emissions decreased from 9.6 thousand tons to 7.6 thousand tons or by 2.0 thousand tons (20.8 %);
- the quantity of solid particle emissions decreased from 2.1 thousand tons to 1.2 thousand tons or by 0.9 thousand tons (42.9 %).

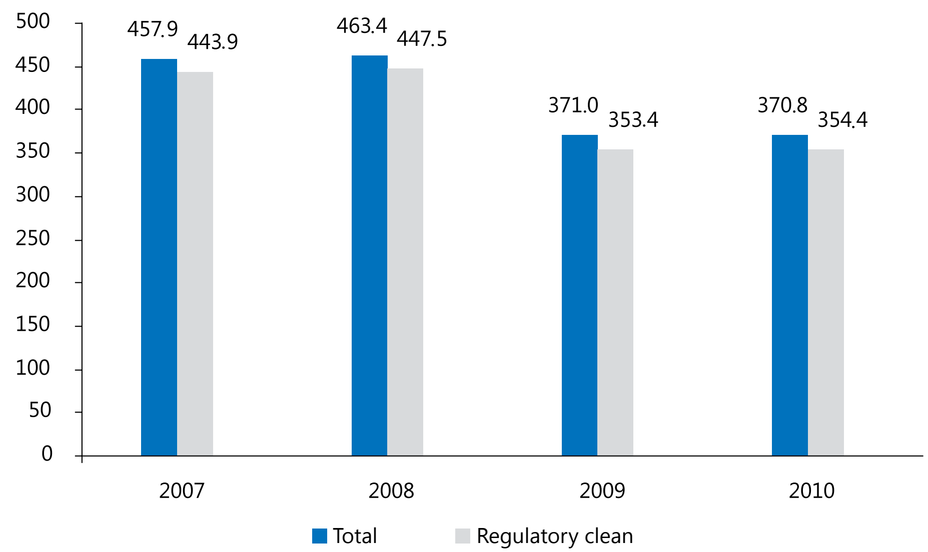
The increase of nigrogen oxide emissions was associated with the increased amount of fuel burned due to cold weather conditions. The decrease of sulphur dioxide and oil ash was achieved due to decrease of fuel oil consumption. Reduction of solid particle emission was due to decreased consumption of coal.

Dynamics of Mosenergo pollutant emissions, t



- Total volume of liquid effluents in surface water bodies amounted to 371.0 mn cubic metres, including 354.4 mn cubic metres of regulatory clean emissions and 16.4 mn cubic metres of emissions treated to prescribed standards. The decrease of the amount of effluents compared to 2009 was 0.2 million m^3;
- Total amount of wastes decreased by 10.2 thousand tons to 130.1 thousand tons.

Mosenergo liquid effluents, mln cubic meters



The recertification audit conducted in Mosenergo in 2010 confirmed that the Company Environmental Management System complies with the international IS014001-2004 standard. The audit was performed by the Bureau Veritas Certification Body.

Based on the results of the audit and the demonstrated level of development and maturity of Mosenergo Environmental Management System, the validity of the certificate of compliance with the international IS014001-2004 standard issued in 2009 was confirmed.

Investment projects

Vera Kiseleva
Chief specialist
of the Investment Department

The investment department is developing the investment programs of the company in accordance with the specifications, developed for Mosenergo by Roland Berger consulting company in 2008. The key stages of this process are approval, ranking, and identification of priority capital construction projects within the established timeframe.

The investment program consists of five different classes of projects. The first of them is the class of strategic project of construction of new power units and power uprate of the existing units. Impmenentation of the "Efficiency" class projects is intended to increase the company income without increasing the installed capacity and to minimize the in-house power consumption at the expense of implementation of the new technologies. These projects include installation of fluid couplings on district heating pumps, renovation of cooling towers, lighting systems etc. The third class of projects includes compulsory projects that we implement per requests of the regulatory authorities, such as technical safety authority Rostechnadzor, fire safety authority Gospozhnadzor (RF Emercom), consumer protection authority Rospotrebnadzor, state-owned water and wastewater treatment company Mosvodocanal etc. The mandatory projects are further subdivided into three subclasses: fire safety, industrial safety and ecology. The forth class of projects is titled "Reliability" and is intended to minimize the number of incidents and accidents by means of replacing worn or obsolete components for new ones. Reliability projects are also subdivided into several subcategories according to the type of equipment – thermomechanical, electrical, automated process control, auxiliary equipment etc. Finally, "Other" projects include construction of heat transmission networks, as well as social and administrative projects. The projects within each class are ranked, and those with the highest priority are then entered into the Company budget.

The major share of the investment program (over 50%) is associated with strategic projects, such as construction of the unit eight of TPP-26 accomplished in 2919, new project of construction of power units at TPP-12,16,20 and construction of GTE-65 gas turbine facility at TPP-9.

Development of investment program is a multidisciplinary process involving all the key technical and financial services of the General directorate and structural subdivisions of the Company affiliates. Our colleagues from the power plants create new projects and classify them into a proper category within SAP system. Then, with active participation of the cost estimate department we verify the cost of implementation of the project. Technical parameters are verified by appropriate technical services of the General directorate, depending on the equipment class and type. There is also a close cooperation with the legal department, sales department and other subdivisions of the Company. The key function of the investment department is to coordinate the entire process.

In our activities, we believe that "large scale quality depends on the quality of detailes" Each project of the investment program is unique, and we can justify and rationalize inclusion of any project into priority list. It is very important to be able to collaborate productively with multiple services of the Company, unite their efforts for resolving common tasks and convince the colleagues to do their best for the common goal. This work helps to learn new things in different areas, while working with the Investment Department I greatly improved my overall understanding of the Company operations as a whole. This is primarily related to technical parameters and properties of equipment. It is also very important to understand legal subtleties and the issues associated with cost estimates and verification. My colleagues in the department are people of new generation – knowledgeable, energetic, young and interesting individuals. This feel great to work with them, and really helps to achieve the results.

"Forsazh" project

Andrey Orlov
SAP consultant,
Center of competencies of business applications

"Forsazh" project is the first stage of implementation of the program "Changing management standards and implementating new corporate information system", which is designed to introduct process-oriented management principles and to implement Company resource management system based on SAP-EPR. The objectives of the project include increase of efficiency and transparency of the company business, improvement of buseness processes and their integration into IT environment. It should be understood, that EPR system today is not simply a new software intended for solving a specific task. It is a more global program integrating all the departments and services of a company into a common system. All the processes are transparent – we can any time enter the system and see which documents are being produced right now, what are the inventory levels, available funds for specific areas of activities etc. Implementation of SAP in Mosenergo was done per a rather aggressive schedule: the entire project took from February to December 2009, and in January 2010 full scale operation of the system was initiated. Participation in a large project of implementation of a corporate information support system is a tremendous source of experience for any consultant, allowing not only to gain new teamwork skills, but also to gather detailed understanding of the Company business-processes. Expert knowledge obtained within this project go far beyond simple understanding of the systems operation. Therefore, work with Mosenergo team was a great school for me. I came to the company at the stage of the project implementation, as an intern in the Company team implementing SAP into integrated procurement chain group.

Our first priority task was to maximally absorb knowledge from the functional team of professional consultants. We had to learn how to work with the system, adjust it and produce the necessary procedures and documentation simultaneously. This was quite a hectic period of the project. Each of us had our own specialization. I learned almost from scratch the logistic processes based on the world's best practices, since SAP is a system that was initially oriented at best practices and all the processes in it were proven effective by the international experience. We learned the system as a whole quite well and gathered some understanding on how to arrange the procurements and logistics, how to manage inventories – these knowledge is much broader than simply being technically able to operate the system, Substntial step forward in the professional defelopment during SAP implementation was the user training process – in 4 months we were lecturing to the Company stuffa not only about SAP transactions, but also to the new business processes they had to adopt to. Speaking to a large audience, discussions, business workshops provided very valuable experience over a relatively short period of time, since training sessions continued daily for 2 full months. Today I frequently consult the company employees - my former students – in various aspects of the Company business processes.

It should be noted that implmenetation of such a large scale project in such a limited period of time requires extremely effective teamwork. It is therefore hardly surprising that we grew into a really good and concerted team, including not only the internal Mosenergo team, but also the contracted consultants. Today we are successfully working in the projects of implementation of Maintenance and IS-U models that are a natural extension of Forsazh project, and I have full confidence in every member of our team because of a good school we went through together.

Corporate governance

MAIN PRINCIPLES

Underlying principles of the Company's corporate governance are laid out in the OJSC Mosenergo's Corporate Governance Code and are based on the legislative regulations of the Russian Federation, the Company's Charter, Corporate Governance Code recommended for use by FCSM's decree o. 421/p dated April 4, 2002, as well as on the corporate governance principles recognised in the international practice.

The Company corporate governance is based on the following:

- BoD's accountability to shareholders and the accountability of the Company's executive bodies to the Company's management bodies, as well as trust regarding relations between all participants of the corporate governance;
- safety and efficiency of stock ownership rights and a possibility for unrestricted and fast carve-out of stock owned by shareholders, as well as providing shareholders with access to effective protection in case of breach of privileges;
- transparency of activities, disclosure of accurate information on important facts and the information about the Company's activities, providing required access to the information, as well as maintaining reasonable balance between the Company's transparency and pursuit of its commercial interests;
- Company's social responsibility, including adherence to quality standards, environmental regulations and creating the most advanced working conditions;
- adherence to ethical norms preventing staff misuse of official positions, which can damage both the Company and third parties, including illegal use of confidential and insider information.

The strategy of Mosenergo in the area of improvement of the mechanisms of corporate governance is to intensify the activities of the committees of the Board of directors, improve the quality of preparation of materials for the Board meetings, incliding preliminary discussion of the issues to be discussed by the Board meetings in the committees and by means of interaction of the Company departments and subdivisions with shareholder representatives.

In order to improve the corporate governance, Mosenergo intended to introduce amendments to the Company Charter during the 2011 annual shareholder meeting of the Company in accordance with the changes of the legislation.

The most important objectives of the corporate governance in Mosenergo are the following:

- maintaining the balance of interests of all shareholders, as well as other persons interested in the continuous development of the Company;
- maintaining the required level of transparency and access to the Company information;
- organisation of operations of the BoD committees with the participation of representatives of major shareholders, Company specialists and independent experts;
- active participation of the Company in management of its affiliate structures, the participation of the Company' representatives in assemblies, meetings of the executive bodies and other corporate events of the Company's affiliates, non-profit and other organisations where the Company acts as a member;
- separation of non-core business activities, optimisation of the Company structure and the reduction of management cost.

The management bodies of the Company are the General Meeting of Shareholders and the Board of Directors. The executive bodies of the Company are General Director and the Executive Board. Supervision of the Company financial and business activities is the responsibility of the Mosenergo Audit Committee.

GENERAL SHAREHOLDER MEETING

The General Meeting of Shareholders is the supreme governing body of Mosenergo, which allows shareholders to exercise their right to take part in the Company's management, as well as gives them access to the information about the Company's activities, achievements and plans. The procedure for preparation and holding of general meetings of shareholders complies with legislature of the Russian Federation. This procedure is defined in the Company Charter and in the Provisions for the General Shareholder Meeting of Mosenergo; it is believed to be an optimal corporate governance practice. The established procedure guarantees equal treatment of all shareholders of the Company.

The General Shareholder Meeting dedicated to the results of the Company operations in 2009 was held on June 16 2010. The meeting approved the annual report of Mosenergo for 2009 and the financial statements, including the profit and loss statement, as well as distribution of the profits of the Company from 2009. It was decided to pay dividends on ordinary shares of the Company for 2009 in the amount of 0.01262335 per an ordinary inscribed share of the Company in the form of cash.

The shareholders also elected new Board of Directors and Auditing committee of the Company, and approved the auditor of the Company. The decision about remunerations and incentive bonuses to the members of the Board of Directors elected by the annual General Shareholder Meeting of June 2010 was not made.

A new revision of Mosenergo's Charter, as well as the following new revisions of the corporate documents were approved at the Meeting:

- New version of the Provisions for General Shareholder Meeting of Mosenergo;
- New version of the Provisions for the Board of Directors of Mosenergo;
- New version of the Provisions for the Auditing commission of Mosenergo.

Besides that, according to the section XI of the Federal law "On joint stock companies" the shareholders approved a number of transctions with interested parties that can be concluded by Mosenergo during its future routine business activities.

BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors of Mosenergo is the Company governing body according to the Federal Law 'On Joint Stock Companies and the Company Charters. The Board of Directors is the general supervisor of the Company's activities, with the exclusion of resolving issues under the authority of the General Meeting of Shareholders.

Members of Board of Directors of the OJSC Mosenergo as of December 31, 2010:

1. SELEZNEV Kirill Gennadievich (Chairman)
2. BIRYUKOV Pavel Pavlovich (deputy Chairman)
3. GAVRILENKO Anatoly Anatolievich
4. GOLUBEV Valery Alexandrovich
5. DUSHKO Alexandr Pavlovich
6. IGNATOV Igor Vyacheslavovich
7. MITYUSHKOV Alexey Alexandrovich
8. PAVLOVA Olga Petrovna
9. SILKIN Vladimir Nicolaevich
10. SKLYAROV Evgeny Viktorovich
11. FEDOROV Denis Vladimirovich
12. SHULGINOV Nikolay Grigorievich
13. YAKOVLEV Vitaly Georgievich

The new Members of Board of Directors were elected by the General Shareholder Meeting of Mosenergo as of June 16, 2010. No changes of the Directorial Board members occurred compared to the previous Board.

At the first meeting, the newly elected Board of Directors appointed K.G. Seleznev as its Chairman and P.P. Biryukov as Deputy Chairman.

During 2010 the BoD of Mosenergo held 17 meetings dealing with 126 issues. The most important issues addressed by the BoD in 2010 were the following:

- approval of Mosenergo Business Plan for 2010;
- approval of Mosenergo Investment Programme for 2010;
- issues regarding the preparation for the General Meeting of Shareholders, including recommendations to the Shareholder Meeting regarding profit allocations and approval of the Company Performance Report for 2009;
- approval of Mosenergo Union Contract for 2010;
- definition of the number of members of the Company Executive Board, election and premature termination of membership of the Executive Board members;
- liquidation of the Company affiliates;
- termination of Mosenergo participation in the "TEK Mosenergo" OJSC;
- definition of the Company credit policy;
- definition of the priority investment projects of the Company;
- approval of the agent agreement and capacity supply agreement;
- approval of Mosenergo integrated procurement program for 2011;
- approval of the Provisions for insurance protection of the Company and program of for insurance protection of the Company;
- approval of dividend policy of the Company.

In 2010, the most important issues under the authority of the Company's BoD were tentatively discussed by the BoD's Committees. The Company has set up the following committees: Audit Committee, Strategy and Investment Committee, Staff and Remuneration Committee, Reliability Committee.

The members of the Committees of the Board of Director that started to function after reelection at the General Shareholder Meeting of Jun 16 2010 were elected at the BoD meeting of August 09, 2010.

Over the year, the BoD Committees provided to the Board their recommendations on the following issues:

- updates to the business-plan and investment program of the Company based on the results of operations for the first half of 2010;
- Approval of Mosenergo Business Plan for 2011-2013;
- Approval of Mosenergo Investment Programme for 2011-2013;
- Identification of the priority investment programs of the Company (in the framework of perapartion for the discussion of the electricity (capacity) wholesale purchase and sales agreements according to the Rules of wholesale electricity and capacity markets;
- issues regarding the preparation for the General Meeting of Shareholders, including recommendations to the Meeting of Shareholders regarding profit allocation and approval of the Company's Performance Report for 2009;
- issues of preparation for the unscheduled shareholder meeting of February 25, 2011;
- Review of the contractual agreements with the Company auditor and the scope of remuneration for the auditor's services;
- Other important corporate issues.

INTERNAL AUDIT COMMISSION

In order to exercise control over the Company's financial and business activities, the General Meeting of Shareholders elects five members of the Audit Commission.

The Company Audit Commission operates according to the legislation of the Russian Federation, the Company Charter and the Regulations of the Company Audit Commission.

The internal Audit commission of the Company performed an audit of the company financial and business activities for 2010. The Company's Audit Commission conducted an audit of documentation regarding financial and business operations of OJSC Mosenergo in 2010.

Audit Commission Members:

1. ARKHIPOV Dmitry Alexandrovich
   First Deputy to the Chief of Stuff of the Executive Board of "Gazprom" OJSC;

2. BELOBROV Andrey Viktorovich
   Deputy Head of the Department - Head of the Division for for monitoring the activities of the organizations supporting gas distribution system in the Department of internal audit and control of finance and business operations of subsidiaries, and affiliates of the management administration committee of Gazprom OJSC;

3. GOLDOBINA Elena Vladimirovna
   Deputy head of a section of the Divisoin for monitoring the activities of the organizations supporting gas distribution system of Gazprom OJSC;

4. ZEMLYANOY Evgeny Nikolayevich
   Chief specialist of the department of development of electricity sector of Gazprom;

5. KOVALEV Vitaly Anatolievich
   Head of a section of the Division for monitoring the activities of the organizations supporting gas distribution system of Gazprom OJSC.

MANAGEMENT

Executive Bodies

Management of Mosenergo's current operations is carried out by a single executive body – the General Director and a collegiate executive body – the Executive Board.

General Director is elected by the Board of Directors. Members of the Executive Board are elected by the BoD; the number of members is also determined by the BoD.

According to the Company Charter, General Director performs the functions of Chairman of the Company's Executive Board.

Rights and obligations of the General Director and members of the Executive Board pertaining to managing current operations of the Company are determined by the legislation of the Russian Federation, the Company Charter, the Provisions for the Company General Director and the Provisions for the Company Executive Board.

The Board of Directors Meeting of May 31, 2010 made the following changes to the Executive Board composition: The authorities of the Executive Board members D.A. Barshak, A. I. Dmitriev, and A.S. Ivannikov were terminated. The number of the Executive Board members was established at nine individuals. M.L. Khodursky, Deputy General Director of "Mosenergo" for finance, was elected an Executive Board member.

Members of Executive Board of Mosenergo (as of December 31, 2010):

1. YAKOVLEV Vitaliy Georgievich (Chairman)
2. ANDREEVA Elena Victorovna
3. ANTONOVA Svetlana Vladimirovna
4. GALAS Ivan Vasilyevich
5. ZROYCHIKOV Nicolay Alexeevich
6. SERGEEV Vladimir Valentinovich
7. TULSKY Vasily Yuryevich
8. KHODURSKY Mikhail Leonidovich
9. TSAREGORODTSEVA Anna Sergeevna

The major objectives of Mosenergo Executive Board are as follows:

- safeguarding rights and legitimate interests of the Company shareholders;
- developing proposals for the Company development strategy;
- implementing financial and business policy of the Company, making decisions on the most topical issues of the Company's current business operations and coordinating the work of the Company divisions;
- improving the efficiency of the systems of internal control and risk monitoring;
- ensuring the achievement of a high level of returns on the Company's assets and maximum return on the Company's operations.

In 2010, the Company Executive Board addressed the issues related to current and future operation, including the following:

- creation of fuel reserves and payments for the fuel;
- implementation of the capital construction and maintenance plans;
- preparations for the upcoming and results of the previous winter period;
- other issues.

REMUNERATIONS

According to the Company Charter and the decision of the General Meeting of Shareholders, members of the Company's BoD are entitled to remuneration and/or compensation of expenses incurred while performing their functions of the Company BoD members. The amount of such remunerations and compensations is determined by a decision of the General Meeting of Shareholders.

Amount, type and procedure for payment of remuneration and compensations to the Mosenergo Board of Directors' members are defined by the Provisions for the procedures of determination of the amounts of remuneration and compensations to the Mosenergo Board of Directors' members approved by the General Shareholder meeting of June 30, 2009. compensations to members of the BoD of OJSC Mosenergo are determined in the Regulations on Determination of the Amount of Remuneration and Compensations to Members of the BoD of OJSC Mosenergo, approved by the General Meeting of Shareholders on June 30, 2009. According to these Regulations, the remuneration fir members of the BoD consists of the basic and additional parts.

The base part of the remuneration constitutes the remuneration paid to members of the Company's BoD fortheir participation in the meetings of the BoD. The amount of the remuneration paid is equivalent to four minimal monthly rates of a first labour grade worker, set by the industry tariff agreement of the RF power sector.

The additional part of the remuneration is paid to members of the Company's BoD according to the results of the financial year, if such results include net profit of the Company. The total amount of the additional part of the remuneration based on the Company's performance shall not exceed five per cent of the Company's net profitearned during the fiscal year when the current members of the BoD were elected into office.

The additional part of the remuneration based on the Company performance is not paid to members of the BoD who attended less than half of all meetings of the BoD (from the date of the election and until termination of the authority).

The aggregate amount of the remuneration paid to members of the BoD in 2010 totaled 5,458,621 roubles.

The payment of remuneration and compensation to members of the Audit Commission is carried out according to the Regulations on Payment of Remuneration and Compensations to Members of the Audit Commission of Mosenergo, approved at the General Meeting of Shareholders on May 30, 2002.

Members of the Audit Commission receive a one-off payment for their participation in the audit of financial and business activities of the Company. This amount paid equals three minimum monthly wages of a first labour grade worker. Furthermore, members of the Company's Audit Commission are entitles to additional payment for each audit of the Company's financial and business activities; the amount of such payment equals up to twenty minimum monthly wages of a first labour grade worker.

Members of the Audit Commission are reimbursed for their travelling expenses related to their participation in meetings of the Audit Commissions related to inspections, according to regulations in force at the moment of such meetings or such inspections.

The amount of remuneration of the Company's General Director is determined according to the System of Incentives for the General Director of OJSC Mosenergo (approved by a decision of the Company's BoD on November 6, 2009); this System includes official salary and quarterly bonuses based on KPI.

The amount of remuneration of members of the Company Executive Board is determined by a decision of the BoD of Mosenergo (Minutes of the Meeting held on January 30, 2006) and expressed in fractions of their allocated salaries. The aggregate amount of remuneration paid for performing job functions in 2010 to the members of the Executive Board totaled 3,582,268 roubles.

CHANGES IN THE COMPANY STRUCTURE

In order to achieve strategic objectives and solve current tasks of Mosenergo, the Company is optimizing its organizational structure.

Within the framework of activities aimed at optimisation of the organisation and property management of OJSC Mosenergo in 2010, the BoD made decisions to dispose of several subsidiaries of OJSC Mosenergo: Energosvyaz communication service, Central Mechanical Maintenance Plant, Information and data processing center, Mosenergonaladka adjustment company (MEN), Moselectroremenergo maintenance company (MERE), Energotorg trade and production enterprise for inventory supplies, heating network, motor transportation department. Corresponding amendments were made in the Company Charter.

The Board of Directors also decided in 2010 to dispose of another Mosenergo affiliate – Shatura agricultural and industrial complex.

Disposal of "Teplosbit" distribution affiliate is in progress.
Part of the functions performed by the affiliates to be disposed of are being transferred to other affiliates and the central office of Mosenergo, some other functions are being contracted out.

Development of the heating business

Marina Kovaleva
Deputy Director for Development, Teplosbit

For 2010, we set ourselves quite ambitionus goals in terms of development of the Company heating business. These goals included improvement of operating efficiency of heat distribution, including the following specific actions: implementation of a unified software application, introduction of a new client-oriented technology allowing us to improve collection rate of the oayments and therefore the revenues from heat distribution.

As a separate category of activities, we were considering business development from the standpoint of load redistribution and new projects in Moscow region.

The results of operations in 2010 have already demonstrated that the revenues from heat distribution increased, and not only due to increased tariff, but also because of the increased sales. Transfer of loads was performed from MOEK boilers to the heat sources operated by Mosenergo first in summer and later – also winter periods. The company entered heating market of Moscow region towns, having started to sell heat directly to the clients in the Orekhovo-Zuevo and Electrogorsk. Forsazh-Teplosbit project intended to implement SAP IS-U software complex was initiated in the company; today the system operation has already started. The implementation of client oriented technologies is about 80% complete. This is a unique project, unparalleled in any Russian distribution company.

What is the novelty of the client-oriented approach? Previously a subscriber used to go to the nearest Teplosbit office to resolve any occurring problems. A solution sometimes could not be promptly found, and he was readdressed to other departments. Now all the client inquries can be resolved within "single window" system. During implementation of this project, the structure of Teplosbit is being changed substantially – 14 structural subdivisions will be reorganized into five client support centers. We expect the centers to be fully operational by June 1 2011. All the consultations and interactions with the key clients will be provided by client managers. As of today, every manager is responcible for a certain group of customers, with whom he can efficiently ineract from making the contractual agreements to the moment of transfer of money to the Mosenergo operational account. In the course of implementation of the client-oriented technologies, personnel training and attestation was performed.

Teplosbit as an affiliate will be closed and reorganized into a Division of heat distribution, to include to services – a subdivision directly working with the customers and a sale support department. Besides that, a Business development section was established within the organization's structure. This section will be responsible for extension of the client base and increase of sales of heat.

Our employees include individuals with very different backgrounds. There are professional power engineers knowing the industry in great details, and young managers who came to the Company from other businesses. It is important to find a proper balance between the"old" and the "new", to achieve maximal efficiency. Besides that, interaction with similar working groups of other power plant was arranged. I believe that we achieved really good level of team work, and we are always capable of finding an effective algorithm of interaction with other subdivisions of the company to solve the issues of any degree of complexity.

Implementation of several large scale project at time is always a challenge. But in this situation we have unique opportunities to realize our potential and obtain new skills and knowledge. For me it is a tremendous experience. I like challenge, and this is what working in a large evolving and developing company always means.

History of Mosenergo

Mosenergo's history is closely interrelated with the history of development of economics, society and culture of Russia.

- The Joint Stock Company of Electric Lighting was founded in 1886 by Carl Fyodorovich Siemens, a Saint-Petersburg merchant of the First Guild, who was the Head of the Siemens&Halske Representative Office. Although the Company was founded in Saint-Petersburg, the new enterprise's managing board raised a concern to prepare ground for the company's operations in Moscow at its first meeting.
- On July 31, 1887 the executive board of the "1886 Society" approved the contract to set up electric lighting of the Postnikova Passage on Tverskaya street in Moscow. This date is acknowledge as the founding date of the electric power system in the Moscow region.
- At the end of 1888 the company successfully completed the task to construct the first centralised power plant: electric power was supplied by Georgievskaya power plant. On November 28, 1897 the company hosted a festive celebration for the opening of the Moscow Municipal Power Station (MMPS) Raushskaya (now HPS-1), and on February 15, 1907 the company launched the second station - MMPS-2 Tramvaynaya.
- The next important stage of development of the electric power system of Moscow was to decision to construct in the vicinity of Moscow a large power plant fired with local fuel, made by the administrator of the Moscow department of the "1886 Society" Robert Eduardovich Klasson. Construction of the plant intended to use a new type of fuel was a major project involving development of new technologies and creation of an entire peat extraction industry.
- In 1912, the company commenced the construction of the world's first district power plant operating on peat in the Bogorodsk district. In April of 1913 the new company, Moscow Joint Stock Society "Elektroperedacha" was founded to utilise the capacity generated by the new station. The plant itself started operating in 1914, and in 1915 it started to work in parallel with the Raushskaya station.
- Joint stock companies "Electric Lighting 1886 Society" and Elektroperedacha successfully operated until October 1917. After the October Revolution the stations were nationalised and ceased operations under their previous ownership in December 1917.
- The management of state power stations was delegated to the Power Department of the Supreme Council of Public Property. At the same time, in December 1917, Ivan Ivanovich Radchenko and Alexander Vasilievich Vinter made proposals conserning further development of Moscow power industry. These proposals became the basis for the first State Plan for the Electrification of the whole country, GOELRO.
- In December 1920, the GOELRO plan was ratified by the VIII All-Russia Soviet Council. According to the plan, the volume of capacity of the Moscow power system was intended to increase almost by the factor of four within 10 to 15 years. Total capacity was to increase from 93 to 340 thousand kW.
- Pursuant to the GOELRO plan, several stations were built in the Moscow region, namely Kashirskaya TPP (now TPP- 4), Shaturskaya TPP (now TPP-5), Krasnopresnenskaya TPP (now a subsidiary of TPP-12), TPP-6 and TPP-8. One of the key events of the period was the completion of the Russia's first 110 kW voltage power line between Kashira and Moscow, as well as two-circuit ring of power lines and electric power substations around Moscow with the voltage of 115 kW. Commissioning of the power ring gave Moscow a reliable power supply system.
- In 1930ies, the workers of the Moscow power supply system known until 1932 as MOGES (Unified Management of Power Plants of the Moscow Region) started the activities to provide centralised district heating to the Soviet capital. March 1931 saw the launch of the first heating main from MTTP-1 and the foundation of a specialised enterprise for maintenance and development of the Moscow district heating network.
- The development of the power system was put on hold by the start of the Great Patriotic War. Part of the equipment was destroyed, some was evacuated and total capacity of Mosenergo sunk two-fold. Nevertheless, Moscow power engineers managed to maintain continuous supply of power to the city's defence facilities; they constructed high-voltage obstacles for the enemy troops, assembled power-generating trains for the liberated regions of the country. Restoration of power industry started right after the successful counteroffensive campaign of the Soviet Army in winter of 1941-1942. As early as by 1945, Mosenergo has already managed to achieve pre-war level of installed capacity.
- In 1946, Mosenergo started using a new type of fuel: HPS-1 started burning natural gas. In the same year, Moscow power system was connected to Ivanovo, Yaroslavl and Gorky power system and in 1956, the first link of the Unifies Power System of the European part of Russia was launched after the installation of a high-voltage power line from Kuybyshev to Moscow.
- Within the framework of the Unified Power System in 1960, the country brought into operation first units of TPP-22, and for the first time in the USRR a 1,000 mm heat pipeline was installed at TPP-22. On October 22, 1963 Mosenergo launched TPP-21 shortly followed by TPP-23, TPP-25 and TPP-26.
- In 1970ies Mosenergo successfully implemented 250 MW thermal power generating units with supercritical steam parameters. Such a unit was first constructed at the TPP-22 and became a base unit for other heat and power plants: TPP-21, 23, 25 and 26.
- Development of district heating system remained a pending issue for Mosenergo, especially during mass construction of residential apartments in the city when district heating pipelines with the length of 20-30 kilometers and pipeline diameters of 1,200-1,400 mm started to be built from the new powerful TPP. Simultaneously, intensive grid development was in progress, with the power transmission lines of 750 kV voltage being extensively constructed. Total length of the high voltage power transmission lines increased drastically. Two high-voltage 220 kV rings were closed around Moscow, soon followed by 500 kV rings.
- On December 30, 1987 Mosenergo brought into operation the first hydroelectric generating set of the Zagorsk Pumped-storage Hydro Plant – a unique power unit regulating peak loads in the grid system. In 1990 Moscow Grid absorbed Ryazan TPP-24, and in 1992 it acquired TPP-28 in Moscow.
- In 1993, the production association Mosenergo was transformed into an open joint stock company.
- In 2005 OJSC Mosenergo developed and started the implementation of the Programme for Development and Technical Upgrade, including planning, construction and commissioning of new generating facilities on the sites of operational power plants in the energy-deficient regions, heat and electricity demand nodes with developed infrastructure.
- On November 22 of 2007, less than two years since the start of construction, TPP-27 launched a combined cycle steam-gas power unit with rated electric power of 450 MW and heat output of 300 Gcal. In June 2008, a unit of the same type was put into operation on TPP-21, and in December of the same year the Company installed yet another 450 MW steam-gas power unit on TPP-27.
- Currently Mosenergo is constructing a fourth 420 MW (e) combined cycle power unit at TPP-26. French company Alstom acts as a general contractor for the construction project.

Structure of the energy sector of Russia

After the completion of the structural reform of the Russian power industry, control and supervision functions previously carried our primarily by the "RAO UES of Russia" OJSC were transferred to the Government of the RF, governmental authorities and industry infrastructure organisations.

At the governmental level, industry regulation is performed by the Government Commission for the Development of Power Industry and the Government Commission for Safety of Power Supply.

The key management body in the power industry is the Ministry of Energy, which develops and implements public policy, as well as regulations, codes and standards in the fuel and energy sector of economy.

On the competitive market, control of the compliance of wholesale and retail electricity markets with the anti- monopoly legislation is exercised by the Federal Antimonopoly Service (FAS) of Russia. FAS also controls the activities of the trading administrator on the wholesale market of electricity, as well as compliance to the disclosure of information standards by the participantes of the wholesale and retail market of electricity, controls functioning of the system of guarantees of performance of obligations on the wholesale market and prevents or identifies cases of price manipulations on the wholesale market.

Within the regulated sphere, tariffs and supervision of issues related to tariff-setting in the power industry are controlled by the Federal Tariff Service (FTS).

The major functions of infrastructure organisations are as follows:

The UES System Operator is responsible for reliable functioning of UES of Russia in the present and future, for safeguards technological integrity and efficient operation of the wholesale and retail electricity and capacity markets;

Federal Grid Company UES of Russia renders electricity transmission services, maintains operability of the grid, and supervises the technical condition of the grid facilities.

MRSK Holding manages distribution networks and determines theirdevelopment strategy;

The "Market council for organization of effective operation of the wholesale and retail electricity and capacity trading systems" ensures functioning of commercial infrastructure on the wholesale market and its correlation with the retail market, as well as maintaining energy security of the RF, unity of the market space, freedom of economic activities and competition on the wholesale and retail markets. It is also responsible for maintaining the balance between interests of power-generating companies and buyers of electricity and capacity, as well as satisfying public demand for reliable and uninterrupted supply of electricity;

The Administrator of the Trading System organises trading on the wholesale electricity and capacity market (registration of bilateral agreements, organisation of the system for collecting information about actual output and consumption of electricity and capacity on the wholesale market, forecasting electricity output and consumption, maintaining compliance of the electricity parameters with the prescribed standards, ensuring reliability and stability of electricity supply);

The "Centre for Financial Settlements" CJSC facilitates financial settlements between participants of the wholesale market of electricity and capacity.

Risks

Risk management implies prevention of risks in production and financial activities of Mosenergo, as well as minimising possible negative outcomes of such risks.

The Company adopted a document "Provisions for Corporate Risk Management of Mosenergo". These Provisions contain a Map of Risks, which includes major types of risks that have an impact on Mosenergo's activities, as well as a risk management program.

Risk management is carried out within the Company by functional divisions according to the type of activities.

At present, the Company believes that the following risks are the most significant for it:

Political Risks

The risk of unreasonable state regulation of tariffs, related to a possibility of artificial containment or directive lowering of tariffs, or approval of tariffs which are inadequate to Company costs.

The Company experts maintain constant cooperation with the FTS of Russia, Regional Energy Complex of Moscow and Fuel and Energy Committee of the Moscow Region. The purpose of this cooperation is to ensure the approval of a reasonable level of tariffs.

Furthermore, in orderto lowerthis particular risk, the Company implements projects to help bring down its operational costs, such as the Lean Production Project.

Market Risks

Significant risks related to operations on the wholesale market of electricity:
- unstable market prices and seasonal fluctuations in demand for electricity and heat;
- lack of governmental regulations on long-term market of capacity and the pricing mechanism for new capacity starting from 2011;

- controlling influence of the grid operator "SO UES" upon operation modes of Mosenergo power plants, which leads to transfer of equipment to cold reserve and surplus capacity;
- The risk of introduction of special procedure of price calculation for electricity on the wholesale market, including transition to state regulation of prices. In order to prevent significant growth of electricity prices for the ultimate customers, appropriate infrastructure organizations perform continuous monitoring of prices on the wholesale market. If the allowable price growth rate is exceeded, the wholesale market can be transferred for a special pricing procedure, including enforcement of governmental price regulation, which might result in a considerable downturn in the Company's revenue and losses from sales of electricity and capacity;
- The risk of introduction of a restriction for capacity prices on the wholesale electricity market starting form 2011 (the draft Decree on the Long-Term Capacity Market envisages a possibility of such a restriction).

In orderto avoid the aforementioned risks, Mosenergo takes part in the development of the regulatory base for the wholesale electricity market, monitors actual situation on the regional level and at the level of UES, and analyses the actions of the SO UES.

Risks on the Heat Market

- Seasonal fluctuations in demand for heat, correlation of demand to climatic conditions;
- Lack of regulatory and legislative base in the heat supply sector;
- Redistribution of Mosenergo share on the retail market in favour of MOEK and OJSC Moscow Heat Distribution Network Company that are are controlled by the Moscow Government and are actively appropriating the heat loads associated the new construction projects.

In order to mitigate these risks, Mosenergo is taking the following actions:

- reforming Teplosbit in order to achieve competitive advantages;
- taking active part in the development of the Law on Heat Supply.

Inflation risk might result in growth of Mosenergo costs and decrease in profits. Inflation growth might also result in losses in real terms of the Company's accounts receivable in case of deferred or delayed payments.

The effects of inflation on the Company financial stability are accounted for at the time of developing of the Company financial plans. In order to mitigate inflation risks, Mosenergo signs long-term fixed annual price contracts for supply and transportation of gas to its power plants.

Risks of Unforeseen Fluctuations of Fuel Cost

The cost of fuel might fluctuate quite substantially. The cost of fuel in the business plan can be exceeded and a need to allocate additional funding for the fuel supply can arise.

In orderto minimise such risks, the Company power plants create reserve supplies of fuel (coal and fuel oil) to cover urgend demands and and eliminate the need for one-time purchases of large quantities of fuel. The Company also cooperates with Gazprom to ensure signing mutually beneficial contracts.

Risks of losses from unforeseen fluctuations of currency and interest rates

The Company is subject to currency risks due to contracts signed with Siemens and Alstrom for the supply of power units since the said contracts are denominated in Euro. Part of the currency risk was transferred to loans required to refinance import contracts, attracted from such banks as Calyon Deutschland, and BNP Paribas. As of January 1, 2011 the liabilities under these loan agreements amounted to 82.8 mn Euro.

Since the interest rates of the loan agreements with Calyon, NordLB, and BNP Paribas are pegged to the EURIB0R6M rate, there is a risk of increase of this interest rate.

At present, the Company is implementing measures to hedge currency and interest rate risks, as well as planning the budget with a view of a possibility of currency and interest rate growth.

Liquidity risk

Currently, the liquidity risk is insignificant. The liquidity cushion with closing account balance exceeding 20 billion roubles is sufficient for the Company to meet its obligations in 2011 without the need to refinance new loans.

Credit risk

When working with the clients, Mosenergo exercises an individualized approach, which takes into account the specifics of financial and business activities of each of them.

For the purpose of credit risk monitoring, business partners are grouped according to their credit profiles, industry affiliation, and loan structure by date and contractual terms of loan repayment.

In order to manage credit risks, the Company is setting up a valuation reserve for the depreciation of receivables, files claims and lawsuits and uses baking guarantees for repayment of advances.

Tax risks

The Management believes that the Company fully abides by the taxation law regulating its activities. However, there is a potential risk of difference of opinion with corresponding supervision authorities regarding issues which allow for ambiguous interpretation.

Taxation law of the RF is subject to frequent changes and sometimes contains ambiguities and uncertainties. Consequentially, there is a possibility of tax risks related to:

- amendments to legislation on taxes and duties related to an increase of tax rates;
- introduction of new taxes;
- incorrect calculations or payments of taxes due to differences in interpretation of the ambiguous laws and regulations.

In order to minimize tax risks, the Company is continuously monitoring changes of tax legislation, legal and administrative practices in order to ensure consistency of the approaches to tax calculation with the current interpretation of law, evaluating planned transactions from the point of view of tax risk mitigation, and conducting training and qualification upgrade cources for the staff responsible for calculation and payment of taxes.

Risks of Loss of Assets Due to Damage of Property

These risks include risks of the Company facilities being rendered inoperable or property being damaged as a result of terrorist activity, misappropriations and theft, or natural disasters in the region.

In orderto mitigate these risks, the Company organises regular inspections of anti terrorist protection of staff and production facilities, implements protection against various possible after-effects of accidents, natural disasters, and catastrophes, conducts emergency response and fire safety drills for the personnel and and insures its property.

Risks of Civil Liability

This type of risks includes the risk of liability for polluting the environment in the region, damaging property owned by third parties, liability for the quality of goods supplied to the domestic market and to the wholesale market of electricity, as well as risks of the management's liability for the damage caused to life and health of the Company employees.

In orderto mitigate these risks the Company strives to:

- decrease emissions of pollutants into environment;
- continuously maintain availability of equipment and reserves of capacity;
- develop an automated system for commercial accounting of power;
- conduct regular certification of work places, verify availability of the the means of individual and collective protection at the workplaces and to the worker crews;
- undertake integrated measures to guarantee industrial safety of hazardous production facilities of the Company;
- insure civil liability for harm inflicted to health, life or proprety to third parties.

Corporate Governance Risks

Current risks related to the Company's corporate governance are as follows:

- the risk of the decisions made by the General Meeting of Shareholders and/or the Board of Directors being appealed against in the court;
- the risk of the Company executive and management bodies failing to approve the Company transactions as provided for by the current legislation and consequentially, of such transactions being declared invalid following lawsuits of interested parties;
- risks related to information disclosure procedures of the Company, according to legislative requirements of the RF.

In order to minimise these risks, the Company ensures strict delineation of responsibilities of the Company managing bodies (in compliance with the Company Charter), proper work of the committees of the Board of Directors, improvement of management of the organisation and introduction of amendments to documents regulating corporate governance. The Company structural subdivisions perform continuous monitoring of compliance with the legal requirements and constituent documents in all business processesof Mosenergo and with the decisions made bythe Company executive bodies.

Technical and Production Risks

The Company mitigates technical and production risks by means of creating reserves of fuel, spare parts and materials, as well as implementing activities aimed at increased reliability of the grid system.

The Company's power plants may face a risk of equipment failures due to misoperations of staff both in normal and in emergency operation.

Advanced staff training is offered in the Company educational centres and directly at its TPP.

Risks related to bringing new equipment into operation are mitigated through purchasing the equipment made according to the technical specifications by suppliers with solid reputation on the market of such equipment, with the declared parameters verified during guarantee tests and operation in the trial period.

Mitigation of the risks related to shortage of qualified personnel required to operate the equipment is achieved by retaining the employees of the Company's subsidiaries through career planning, monetary incentives and social guarantees.

Mosenergo performs analysis of possible risk situations while implementing its production programme. The key organisational instrument for risk mitigation and compensation of damages is insurance. The Company insures property, hazardous production facilities, transport vehicles, civil liabilities, risks of occupational injures and deseases, and also provides general medical insurance to its employees.

Organisational Risks

Organisational risks include the risk of losses resulting from imperfect management procedures in the Company and incorrect selection of the market strategy.

In order to minimise these risks the Company facilitates improvement of the management structure. This involves implementation of the Lean Production Project and activities related to assessment, analysis and improvement of business processes.

In order to improve the quality of decisions the Company offers training to the management and specialists in the qualification upgrade institutes.

Investment Risks

While implementing its investment program, Mosenergo is exposed to investment risks, i.e. the risks associated with deterioration of key parameters of the project due to changed external factors.

The Company is engaged in investment management optimisation for new construction projects through introducing project management systems based on the latest methods and investment controlling practices.

Legal Risks

Risks of losses associated with neglect of the existing legislation or with legislative amendments introduced while a transaction was in process; risk of improperly produced documentation.

The legal risks are controlled by the ongoing formalization of document production procedures. Minimisation of legal risks is underpinned by the use of standard forms of documents and continuous monitoring of changes in the relevant legislation.

Documents supporting business processes in the Company are subject to verification bythe legal department, which facilitates minimisation of legal risks and risks associated with improperly produced documentation. Risks of increased expenses due to settlements of claims lodged against Mosenergo regarding liabilities incurred prior to the reform.

In order to minimize these risks, Mosenergo terminated the Agreement on the joint and several liability towards creditors in relation to the liabilities occurred before reorganization of Mosenergo starting from December 31, 2008.

Securities

Mosenrego shares are listed in the Russian MICEX (in the A1 quoting list) and RTS (in the A1 quoting list) stock exchanges. Starting from December 6, 2010, Mosenergo shares are traded in the RTS Standard section of the RTS Stock Exchange.

Tickers:

- MICEX - MSNG
- RTS SE T+0 – MSNGG
- RTS SE RTS Classic – MSNGG
- RTS Standard – MSNG
- Bloomberg code MSNG RU
- Reuters code MSNG.RTS

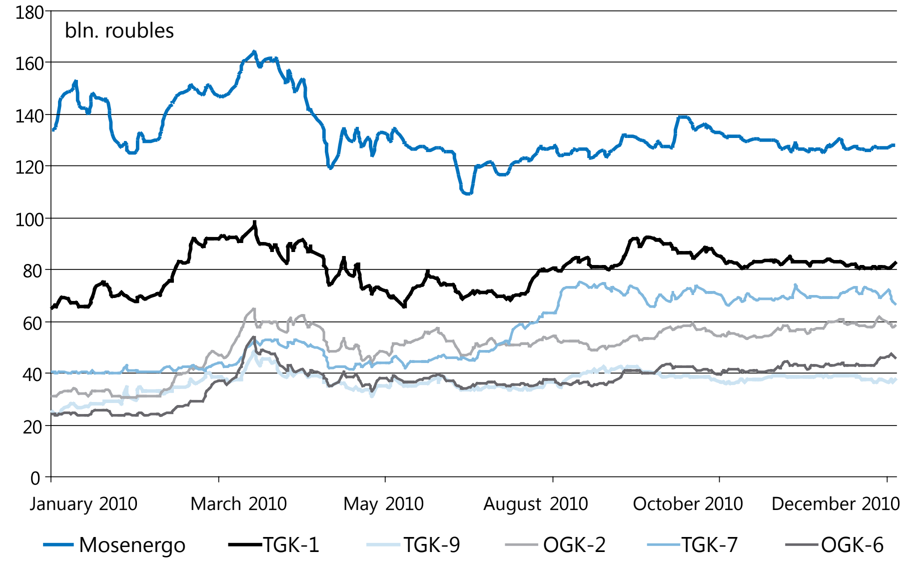
Depositary receipt programs:

- Level 1
- 144A
- Reg S

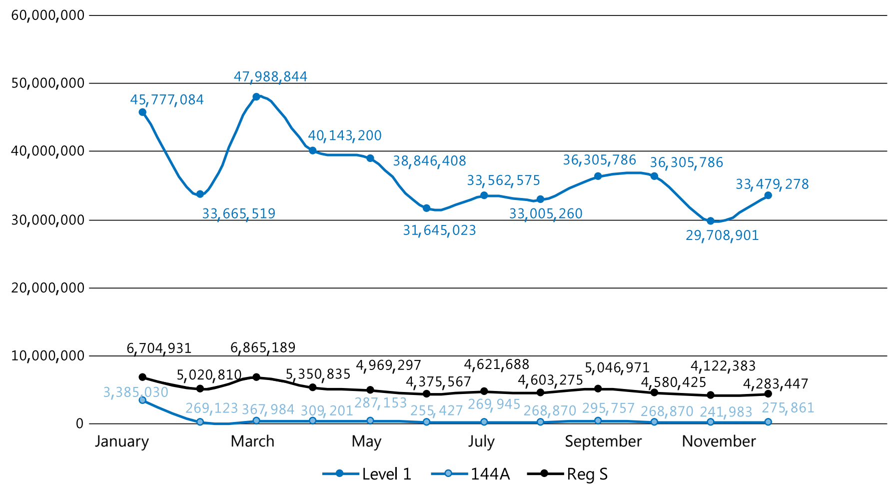
Bonds of Mosenergo traded at the MICEX

Series	Identification number	Date of issue	Debenture description	Face value (roubles)	Number, pcs	Date of maturity
BO-01	4B02-01-65116-D	01.12.2008	Exchange traded bonds payable to bearer with compulsory centralized storage	1000	1,000,000	13.09.2011
BO-02	4B02-02-65116-D	01.12.2008		1000	2,000,000	18.02.2016
BO-03	4B02-03-65116-D	01.12.2008		1000	2,000,000	28.11.2014

Dynamics of capitalization of Mosenergo in 2010 at MICEX



Dynamics of capitalization of Mosenergo depository receipts in 2010, US dollars



Dividend policy

Dividend policy of Mosenergo was approved by the Board of Directors of December 24, 2010.

Dividend policy of Mosenergo was developed in compliance with the applicable law of the Russian Federation, Code of the corporate behavior recommended by the FCSM of Russia, Mosenergo Company Charter, and internal documents of Mosenergo. The Dividend policy of Mosenergo determines the principles followed by the Mosenergo Board of Directors in drafting the recommendations to shareholders related to profit distribution options, including payment of dividends.

The amount of dividends is calculated from the net profit of the Company reflected in the annual financial statements produced according to the requirements of the Russian regulations and legislation.

The following principles are observed while calculating the amount of dividends:

- Transparency of the mechanism of definition of the amount of dividends;
- Balance between short term (immediate income) and long term (development of the Company) interests of shareholders;
- Focus on increasing investment appeal and capitalization of the Company.

The established procedure of calculation of the amound of dividends allows paying 5% to 35 % of the net profit of the company as dividends under the condition that the reserve fund is fully created as required by the Company Charter.

The following principles are observed while calculating the amount of dividends:

- Part of the net profit is allocated to the reserve fund as required by the Company Charter. Allocation of the funds from net profit to the reserve fund is discontinued when the reserve fund reaches the amount required by the Company Charter;
- Part of the net profit in the amount of 5% is used for paying dividends;
- Part of the net profit in the amount of up to 95%, but no less than 35% is reserved to be used for investment projects of the Company;
- The remaining part of the net profit after deductions is evenly distributed between dividends and reserves to be used for investment projects of the Company.

In order to make decision about payment of dividends, the Board of Directors provides the General Shareholder Meeting recommendations about the amount to be paid. After adoption of the decision by the General Shareholder Meeting, the dividends are paid (according to the Company Charter, the payments are made in the form of cash) within no more than 180 (one hundred and eighty) days after adoption of the decision.

Information about the members of the Board of Directors, committees of the Board of Directors and Executive Board

MEMBERS OF THE BOARD OF DIRECTORS[9]

SELEZNEV
Kirill Genadievich
Year of birth: 1974
Education: higher, PhD (economic science)
Positions held over the last five years and presently
2002 - to date
"Gazprom" OJSC, head of the Department of Gas and Liquid Hydrocarbons Processing and Marketing, member of the Executive Board
2003 - to date
"Gazprom mezhregiongaz" LLC, on 08.09.2010 renamed to "Gazprom Mezhregiongaz" CEO (part time)

BIRYUKOV
Pavel Pavlovich
Year of birth: 1951
Education: Higher
Positions held over the last five years and presently
2002 - 2007
Prefecture of the Southern Administrative District of Moscow, Prefect
2007 - 2010
Moscow Government, first deputy Mayor of Moscow in the Moscow Government, head of the Municipal Economy Complex of Moscow
2010 - to date
Moscow Government, first deputy of Moscow Mayor in the Government of Moscow, head of the Municipal service and facilities of Moscow

GAVRILENKO
Anatoly Anatolievich
Year of birth: 1972
Education: Higher
Positions held over the last five years and presently
2004 - to date
"Lider" CJSC (pension fund asset management company), CEO

[9] *as elected by the General shareholder meeting of June 16, 2010.*

GOLUBEV
Valery Alexandrovich
Year of birth: 1952
Education: higher, Doctor of Science (economy)
Positions held over the last five years and presently
2005 - 2006
"Gazprom" OJSC, Head of the Department of Investment and Construction, member of the Executive Board
2005 - 2006
"Gazkomplektimpeks" LLC, CEO (part time)
2006 - to date
"Gazprom" OJSC, Deputy Chairman of the Executive Board

DUSHKO
Alexandr Pavlovich
Year of birth: 1964
Education: higher, Doctor of Science (economy)
Positions held over the last five years and presently
2004 - to date
"Gazprom" OJSC, Deputy Head of the Finance and Economics Department
2008 - to date
"Gazprom energoholding" LLC, Financial Director

IGNATOV
Igor Vyacheslavovich
Year of birth: 1968
Education: Higher
Positions held over the last five years and presently
2004 - 2010
Department of Property of Moscow, Deputy Head of Department

MITYUSHOV
Alexey Alexandrovich
Year of birth: 1975
Education: Higher
Positions held over the last five years and presently
2003 - 2007
"Mezhregiongas" LLC, Head of Property and Corporate Affairs Department
2003 - 2007
"Mezhregionteploenergo" LLC, CEO
2007 - to date
"Gazprom energo" LLC, CEO
2008 - to date
"Sixths generating company of the wholesale electricity market" LLC, CEO
2010 - to date
"Second generating company of the wholesale electricity market" LLC, CEO

PAVLOVA
Olga Petrovna
Year of birth: 1953
Education: higher, PhD (law)
Positions held over the last five years and presently
2004 - to date
"Gazprom" OJSC, Head of the Department of property management and corporate relations of "Gazprom" OJSC, member of the Executive Board.

SILKIN
Vladimir Nicolaevich
Year of birth: 1957
Education: higher, PhD (technology)
Positions held over the last five years and presently
2004 - 2007
Department of Property of Moscow, Moscow Government, Minister of Moscow Government, head of the Department
2007 - 2010
Department of Property of Moscow, Moscow Government. Deputy of Moscow Mayor in the Government of Moscow, head of the Municipal land property service of Moscow, Head of the Department of property of Moscow
2010 - to date
Moscow Government, Prefect of the Northern Administrative district

SKLYAROV
Evgeny Viktorovich
Year of birth: 1955
Education: higher, PhD (economic science)
Positions held over the last five years and presently
2003 - 2006
"Mospromstroymateriali" OJSC, President
2006 - наст. время
Moscow Government, fuel and energy Department of Moscow, Head of the department

FEDOROV
Denis Vladimirovich
Year of birth: 1978
Education: higher, PhD (economic science)
Positions held over the last five years and presently
2002 - 2006
"EuroSibEnergo-engineering" LLC, 1-st category specialist, head of department
2006 - 2007
"Gazenergoprom Corporation" LLC, Head of investment technology and technical projects Department
2006 - 2007
Mezhregiongas LLC, Advisor to General Director
2006 - 2008
"Mezhregionsbit" LLC, CEO

2007 - to date
"Gazprom" OJSC, Head of the Department of electricity sector development and marketing
2009 - to date
"Gazprom energoholding" LLC, CEO
2009 - to date
"Centerenergoholding" OJSC, CEO

SHULGINOV
Nikolay Grigorievich
Year of birth: 1951
Education: higher, PhD (technology)
Positions held over the last five years and presently
2004 - 2009
"SO-CDU UEC" OJSC, Deputy Chairman of the Executive Board
2009 - to date
"System Operator of the Unified Energy System" OJSC ("SO EES" OJSC), First Deputy Chairman of the Executive Board

YAKOVLEV
Vitaly Georgievich
Year of birth: 1972
Education: Higher
Positions held over the last five years and presently
2004 - 2007
"Vostokgazprom" OJSC, First vice-president, president
2004 - 2007
Tomskgazprom OJSC, CEO (part time)
2007 - 31.03.2008
Mosenergo, Deputy General Director for corporate policy
01.04.2008 - to date
Mosenergo, CEO

AUDIT COMMITTEE

Members of the Committee approved by the Resolution of the Board of Directors of August 09, 2009, meeting Minutes 2.

Chairman of the Committee:
PAVLOVA
Olga Petrovna
member of the Executive Board of Gazprom OJSC, head of the Department for Asset Management and Corporate Relations of Gazprom OJSC, member of the Board of Directors of Mosenergo.

Members of the Committee:
GAVRILENKO
Anatoliy Anatolievich
CEO of "Leader" CJSC, member of the BoD of Mosenergo.

DUSHKO
Alexander Pavlovich
Deputy Head of the Finance and Economics Department of Gazprom OJSC , member of the Board of Directors of Mosenergo;

SILKIN
Vladimir Nikolaevich
Deputy Moscow Mayor in the Government of Moscow, Head of the Unit for Property and Land Affairs of Moscow, Head of the Property Department of the Government of Moscow, member of the Board of Directors of Mosenergo;

SHULGINOV
Nikolay Grigorievich
First Deputy Chairman of the "SO UES" OJSC Executive Board, member of the Board of Directors of Mosenergo.

Composition of the committee before the most recent election of the members by the Board of Directors: Chairman - O.P. Pavlova; members: A.A. Gavrilenko, A.P. Dushkov, V.N. Silkin, and N.G. Shulginov.

STRATEGY AND INVESTMENT COMMITTEE

Members of the Committee approved by the Resolution of the Board of Directors of August 09, 2009, meeting Minutes 2.

Chairman of the Committee:
GOLUBEV
Valeriy Alexandrovich
Deputy Chairman of the Executive Board of OJSC Gazprom, member of the Board of Directors of Mosenergo (elected by the decision of the Board of Directors of September 10, 2010, meeting Minutes 3).

Members of the Committee:
IGNATOV
Igor Vyacheslavovich
Deputy Head of the Property Department of Moscow City, member of the Board of Directors of Mosenergo;

FEDOROV
Denis Vladimirovich
Head of the Department for the Development of the Electricity and Power Sector and Marketing in the Power Industry of Gazprom OJSC, member of the Board of Directors of Mosenergo;

ANDREEVA
Elena Viktorovna
General Director for Sales, Mosenergo;

ANTONOVA
Svetlana Vladimirovna
Deputy General Director for Legal Issues, Mosenergo;

BASHUK
Denis Nikolaevich
Head of the Production Department of Gazprom Energoholding LLC;

VORONIN
Stanislav Vyacheslavovich
Advisor to General Director, "Gazprom Energoholding" LLC;

ILYENKO
Alexander Vladimirovich
Director for Development of UES, "SO UES" OJSC;

KOROBKINA
Irina Yurievna
Head of the Department for Support of the Reform in the Power Industry of the Division for Development of Electricity Sector and Marketing in the Power Industry, Gazprom OJSC;

RODIN
Alexey Borisovich
Chief economist of the department of financial plans for subsidiaries and affiliates of Gazprom OJSC;

TUSHUNOV
Dmitriy Yurievich
Head of the Analytical Department, Chief Economist of Leader CJSC;

KHODURSKY
Mikhail Leonidovich
Deputy General Director of "Mosenergo" OJSC for finance;

SHATSKIY
Pavel Olegovich
First Deputy CEO of Gazprom Energoholding LLC.

Composition of the committee before the most recent election of the members by the Board of Directors: Chairman - D.V. Fyodorov; members: E.V. Andreeva, S.P Anisimov, S.V. Antonova, D.N. Bashuk, A.S. Ivannikov, I.V Ignatov, A.V. Ilyenко, I.Yu. Korobkina, A.P. Kuleshov, Yu.V. Naumov, A.V. Rogov, D.Y. Tushunov, P.O. Shatsky.

HR AND REMUNERATION COMMITTEE

Members of the Committee approved by the Resolution of the Board of Directors of August 09, 2009, meeting Minutes 2.

Chairman of the Committee:
GAVRILENKO
Anatoliy Anatolievich
CEO of "Leader" CJSC, member of the Board of Directors of Mosenergo.

Members of the Committee:
GOLUBEV
Valeriy Alexandrovich
Deputy Chairman of the Executive Board of Gazprom OJSC, member of the Board of Directors of Mosenergo;

FEDOROV
Denis Vladimirovich
Head of the Department for the Development of the Electricity and Power Sector and Marketing in the Power Industry of Gazprom OJSC, member of the Board of Directors of Mosenergo.

Composition of the committee before the most recent election of the members by the Board of Directors: Chairman - A.A. Gavrilenko; members: V.A. Golubev, A.P. Dushko.

RELIABILITY COMMITTEE

Members of the Committee approved by the Resolution of the Board of Directors of August 09, 2009, meeting Minutes 2.

Chairman of the Committee:
BASHUK
Denis Nikolaevich
Head of the Production Department of Gazprom Energoholding LLC.

Members of the Committee:
ALYUSHENKO
Igor Dmitrievich
Director for Technological Development of Dispatch Management, "SO UES" OJSC of the UDD Centre;

ROGALYOV
Nikolay Dmitrievich
Deputy CEO for Development, Gazprom Energoholding LLC;

ROZHKOV
Dmitry Ernstovich
Deputy head of the production management department, Head of the production and technology division of Gazprom Energoholding LLC;

SERGEEV
Vladimir Valentinovich
First Deputy General Director, Chief Engineer of Mosenergo;

NIKOLSKY
Valery Viloryevich
Deputy General Director of "Mosenergo" OJSC for industrial safety;

TRINOGA
Artur Mikhailovich
Head of the Power Engineering Department of the Division for Development of Power Industry and Marketing in the Power Industry, Gazprom OJSC;

TSAREV
Sergey Anatolievich
Deputy Head the electrical equipment operation and maintenance department, Mosenergo.

Composition of the committee before the most recent election of the members by the Board of Directors: Chairman - D.V. Fedorov; members: I.D. Alyushenko, M.I. Balabanov, D.N. Bashuk, S.A. Pronin, N.D. Rogalev, V.V. Sergeev, A.M. Trinoga, S.A. Tsarev.

EXECUTIVE BOARD MEMBERS[10]

YAKOVLEV
Vitaly Georgievich
(chairman)
Year of birth: 1972
Education: Higher
Positions held over the last five years and presently
2004 - 2007
"Vostokgazprom" OJSC, First vice-president, president
2004 - 2007
Tomskgazprom OJSC, CEO (part time)
2007 - 31.03.2008
Mosenergo, Deputy General Director for corporate policy
01.04.2008 - to date
Mosenergo, CEO

ANDREEVA
Elena Victorovna
Year of birth: 1974
Education: Higher
Positions held over the last five years and presently
2005 - 2008
"INTER RAO UEC" CJSC, Senior manager, head of the directorate of the department for sale on the wholesale electricity and capacity market, deputy head of the department.
2008 - 2008
Mosenergo, Director for operations on the wholesale electricity and capacity market
2008 - to date
Mosenergo, Deputy General Director for sales

ANTONOVA
Svetlana Vladimirovna
Year of birth: 1974
Education: Higher
Positions held over the last five years and presently
2004 - 2007
"Kazakov and partners" attorneys at law, Lawyer, partner
2007 - to date
Mosenergo, Deputy General Director for legal issues

GALAS
Ivan Vasilyevich
Year of birth: 1955
Education: higher, PhD (technology)
Positions held over the last five years and presently
2005 - 2008
TTPP-23, affiliate of Mosenergo, Chief Engineer
2008 - to date
TPP-20, affiliate of Mosenergo, Director

ZROYCHIKOV
Nicolay Alexeevich
Year of birth: 1954
Education: higher, Doctor of Science (technology
2005 - to date
TPP-23, affiliate of Mosenergo, Director

SERGEEV
Vladimir Valentinovich
Year of birth: 1957
Education: higher, PhD (technology)
Positions held over the last five years and presently
2005 - to date
Mosenergo, First Deputy General Director, Chief Engineer

[10] *As of December 31, 2010.*

TULSKY
Vasily Yuryevich
Year of birth: 1978
Education: Higher
Positions held over the last five years and presently
2005 - 2008
"UPS Essies (CIS)" CJSC, financial manager of the accounting department, chief accountant
2008 - to date
Mosenergo, Director for investments

KHODURSKY
Mikhail Leonidovich
Year of birth: 1971
Education: Higher
Positions held over the last five years and presently
2004 - 2006
Gazprombank CJSC, Joint stock bank of gas industry, Head of the Department of individual financial services
2006 - 2007
Mezhregiongas LLC, Advisor to General Director
2006 - 2010
"Gazenergoprombank" CJSC, Advisor for regional issues to the Executive Board Chairman, deputy Chairman of the Executive board, Chairman of the Executive board
2010 - to date
"Gazprom energoholding" LLC, Deputy General Director of "Mosenergo" OJSC for economy and finance
2010 - to date
Mosenergo, Deputy General Director for finance

TSAREGORODTSEVA
Anna Sergeevna
Year of birth: 1976
Education: Higher
Positions held over the last five years and presently
2004 - 2006
"Marten Industrial Systems" LLC, Commercial Director
2004 - 2006
"European Real Estate Trade System" CJSC, Manager of elite real estate department
2006 - 2008
"ANT-inform" LLC, HR manager, head of HR department
2008 - 2008
Mosenergo, Director for personnel
2008 - 2009
Mosenergo, Deputy General Director for human relations
2009 - to date
Mosenergo, Deputy General Director of "Mosenergo" OJSC, managing director

Compliance with the corporate behavior code of the Federal Financial Market Service

N	Item of the corporate behavior Code	Compliance assessment	Note
	GENERAL SHAREHOLDER MEETING		
1	Notification of shareholders about shareholder meetings at least 30 days before the meeting date regardless of the issues on the agenda if the law does not require a longer period.	Partially complied	Company Charter of Mosenergo, article 17, para 17.12. Notification about the annual general shareholder meeting of the Company or about the general shareholder meeting of the Company with the issues of the company reorganization on the agenda is to be sent (or handed personally) to each individual listed among the people having the right to participate in the general shareholder meeting of the Company or published in Izvestiya and (or) Rossiyskaya Gazeta newspaper and is published on the web site of the company no later than 30 days before the date of the meeting, and notification about unscheduled shareholder meeting – no later than 20 days before the meeting.
2	. Access of the shareholders to the list of persons entitled to attend the General Meeting, starting from the date of announcement of the General Meeting until the closing of the General Meeting held in person, and in the case of a General Meeting held by correspondence - until the deadline for the collection of voting ballots	Complied	According to the existing legislation, the list of persons authorised to participate in the Meeting shall be made available by the Company at the request of persons included in such list and having at least 1% of the votes
3	Access of the shareholders to information (materials) to be provided during the preparation for the General Meeting through electronic media, including the Internet	Complied	Company Charter of Mosenergo, article 17, item 17.16.
4	Possibility for a shareholder to put an issue on the agenda of the General Meeting or require a General Meeting to be called without presenting an extract from the shareholder register where title to shares is recorded in the shareholder register system, and by presenting only a statement from the deposit account where the title to shares is recorded in a deposit account	Complied	The procedure for entering an item on the General Meeting agenda, as well as the procedure on holding a General Meeting of Shareholders shall be established by existing legislation.

N	Item of the corporate behavior Code	Compliance assessment	Note
5	Presence in the Charter and internal documents of the Company of the requirement on mandatory presence of CEO, members of the managing board, members of the BoD, members of the audit commission and the Company's auditor at the General Meeting of Shareholders	Not Complied	
6	Obligatory presence of the nominees for the positions Not Complied of members of the Board of Directors, the CEO, members of the Executive Board, members of the Audit Commission and external auditor during consideration by the General Meeting of their election and appointment	Not Complied	
7	The by-laws of the company establish a registration procedure for the participants at the General Meeting	Complied	Company Charter of Mosenergo, article 8, item 8.6., article 9, item 9.1., 9.2
	BOARD OF DIRECTORS		
8	The company's Charter provides for the authority of the Board of Directors to approve annual financial	Complied	Company Charter of Mosenergo, article 20, item 20.1., article 64). company's charter of the authority of the Board of Directors to approve annually a business plan (adjusted business plan), including the programme for technical upgrade, reconstruction and development, as well as investment programme and performance reports.
9	Existence of the Company risk management procedure approved bythe Board of Directors	Complied	The corporate Provisions for Risk Management of Mosenergo is approved by the Company's Board of Directors; Minutes 9 dated November 18, 2004
10	The company's Charter provides for the right of the Board of Directors to make a decision on suspending the authorities of the CEO appointed by the General Meeting	Complied	Company Charter of Mosenergo, article 20, item 20.1., article 25).
11	The Charter of the company provides for the right of the Board of Directors to establish requirements forthe qualifications and the level of compensation of the CEO, members of the Executive Board, and managers of the key structural divisions of the company	Partially complied	Company Charter of Mosenergo, article 25, item 25.6. The agreement between the Company's CEO and members of the Company's Executive Board and the Company is signed bythe Chairman of the Board of Directors or by a person authorised to do so bythe Company Board of Directors.
12	The Company Charter provides for the right of the Board of Directors to make approve the conditions of the contractual agreements with CEO and Executive Board members	Complied	Company Charter of Mosenergo, article 25, item 25.6.

N	Item of the corporate behavior Code	Compliance assessment	Note
13	The Company Charter and internal documentation contain a requirement that votes of the members of the Board of Directors who act as the CEO and members of the Executive Board should not be taken into account when the terms of the contracts with the CEO (managing entity, manager) and members of the Executive Board are approved	Not Complied	
14	The Board of Directors includes at least 3 independent directors meeting the requirements of the Code of Corporate Conduct	Complied	
15	Absense among the members of the Board of Directors of individual convicted of committing offences in the area of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the area of finance, taxes and levies and the security market	Complied	
16	There are no persons on the Board of Directors who serve as members, the CEO (manager), members of the management body or employees of any competitor of the company	Not Complied	
17	The Company Charter should contain a requirement that the Board of Directors be elected by cumulative vote	Complied	Company Charter of Mosenergo, article 18, item 18.1.
18	The internal documents of the company include the obligation of the members of the Board of Directors to refrain from the actions that shall or potentially can result in conflict of interests between them the Company, or should such a conflict occur – disclose the information about such conflict to the Board of Directors.	Complied	Article 8, item 8.1. of the Mosenergo Provisions for information policy require the members of the Board of Directors to notify the members of the Board of Directors in writing about real or potential conflicts between their interests and the interests of the Company. Company Charter of Mosenergo, article 4, item 4.3., article 1-3), 8).
19	The internal documents of the company contain a responsibility of members of the Board of Directors to give a written notice to the Board of Directors on their intention to make transactions with the Company's securities. These members are also members of the Board of Directors or the Company subsidiaries (affiliated companies) and their responsibilities also include disclosure of information on theirtransactions with such securities	Complied	Company Charter of Mosenergo, article 4, item 4.3., article 4.3.10. Provisions for information policy of Mosenergo, article 8, item 8.2.
20	The internal documents of the company contain a requirement to conduct meetings of the Board of Directors at least once every six weeks	Partially complied	Company Charter of Mosenergo, article 8, item 8.3. The Board meetings are to be held as necessary, but at least once in every quarter.

N	Item of the corporate behavior Code	Compliance assessment	Note
21	Holding of Meetings of the Company Board of Directors in the course of a year, in which the Company's annual report is prepared with the periodicity of at least once every six weeks	Partially complied	The meetings were arranged in 2010 as was deemed necessary. Total of 17 meetings were held in 2010.
22	The by-laws of the company establish a procedure for the meetings of the Company Board of Directors	Complied	Company Charter of Mosenergo, article 22, Charter of Mosenergo Board of Directors, article 8-10.
23	The by-laws of the company stipulate the need for approval by the Board of Directors for the company transactions amounting to 10% and more of the company asset value, other than transactions performed in the ordinary course of business	Complied	Company Charter of Mosenergo, article 20, item 20.1., article 49).
24	The by-laws of the company provide for the right of the members of the Board of Directors to receive information necessary for the performance of their functions from the executive bodies and managers of the key structural divisions, and liability of the latter for failure to provide such information	Complied	Company Charter of Mosenergo, article 4, item 0.4., article 4.2.1.
25	There is a strategic planning committee of the Board of Directors or functions of such committee are delegaged to some other committee (other than the Audit Committee or the remuneration and HR committee)	Complied	
26	There is a committee (Audit Committee) of the Board of Directors that recommends an external auditor to the Board of Directors and communicates with the external auditor and the internal Audit commission	Complied	
27	Only independent and non-executive directors are members of the audit committee.	Complied	
28	The audit committee is chared by independent director	Complied	
29	The by-laws of the joint stock company provide for the access of all the members of the Audit Committee to any documents and information of the company conditionally to non-disclosure of confidential information	Complied	Provisions for the Audit committee of Mosenergo, article 4, item 4.1., article 2).
30	There is a committee (Nomination and remuneration Committee) of the Board of Directors that is responsible for the determination of the criteria for the selection of candidates to the Board of Directors and development of the company remuneration policies	Complied	
31	The Nomination and remuneration Committee is chared by independent director	Complied	
32	There are no executives of the company in the Nomination and Compensation Committee	Complied	
33	There is a risk committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee)	Partially complied	The obligations of the committees of the Mosenergo Board of Directirs for reliability and for strategy and investments include the obligation to timely informe the Board of Directors about the risks the Company is exposed to, within their competence
34	There is a risk committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee)	Not Complied	The Committee was not organised.
35	There are no executives of the company in the committee for the settlement of corporate conflicts	Not Complied	The Committee was not organised.
36	The committee for the settlement of corporate conflicts is headed by an independent director	Not Complied	The Committee was not organised.
37	The company has internal documents approved bythe Board of Directors stipulating the procedure of formation and operation of the committees of the Board of Directors	Complied	
38	The Company Charter provides for a procedure to determine the quorum of the Board of Directors that would ensure obligatory participation of independent directors in the Board meetings	Partially complied	Company Charter of Mosenergo, article 22, item 22.9., 22.10 The quorum of the Board of Directors is defined in the Company Charte and applicable legislation.
	EXECUTIVE BODIES		
39	There is a collegial executive body (Executive Board) of the company	Complied	Company Charterof Mosenergo, article 25, item 25.1., article 27.
40	The Charter or internal documents of the company stipulate the need for approval by the Executive Board of real estate transactions and loans received by the company unless such transactions are major deals or are performed in the ordinary course of business	Partially complied	The Company Charter stipulates approval of transactions in such cases that are determined bythe Board of Directors and/or the Company Executive Board. Company Charterof Mosenergo, article 20, item 20.1., article 50-53, 57., article 27, item 27.4., article 7, 9.

N	Item of the corporate behavior Code	Compliance assessment	Note
41	The by-laws of the company establish procedures for the approval of transactions which are outside the scope of the company's financial and operational plan	Complied	
42	There are no persons in the executive bodies who serve as members, the CEO (manager), members of the management body or employees of any competitor of the company	Complied	
43	There are no persons in the management bodies convicted of committing crimes in the sphere of economic activities; offenses against the government, against interests of the federal, regional and local government authorities; or who have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market. If the functions of the sole executive body are performed by a managing entity or a manager - the CEO and members of the Executive Board of the managing entity or manager meet the requirements established for the CEO and members of the Executive Board of the company	Complied	
44	The Charter or by-laws of the company contain a prohibition for the managing entity (manager) to perform similar functions for a competitor or have any other property relations with the company other than the provision of management services	Partially complied	Company Charterof Mosenergo, article 26, item 26.7. The decision to delegate responsibilities of the Company's CEO to a managing organisation or a manager is to be made by a General Meeting of Shareholders acting on a proposal from the Company Board of Directors. The conditions of the contract shall be approved by the Company Board of Directors.
45	The by-laws of the company include the obligation of the members of the executive bodies to refrain from any actions that will or may potentially lead to a conflict of interests with the company and in the case of such conflict - their obligation to inform the Board of Directors on such conflict	Complied	Provisions for information policy of Mosenergo, article 8, item 8.1.Members of the Executive Board, as well as the Company's CEO shall be obliged to submit a written notification to the Board of Directors about a rise of conflict or a possibility of a rise of conflict between their interests and the interests of the Company. Provisions for the Executive Board of Mosenergo, article 4, item 4.2. When exercising their rights or fulfilling their obligations, the members of the Executive Board shall pursue the interests of the Company, exercise their rights and fulfil their obligations to the Company in a reasonable and honest manner.

N	Item of the corporate behavior Code	Compliance assessment	Note
46	The Charter or by-laws of the company contain criteria for the selection of the managing entity (manager)	Partially complied	Company Charterof Mosenergo, article 26, item 26.7. The decision to delegate responsibilities of the Company's CEO to a managing organisation or a manager is to be made by a General Meeting of Shareholders acting on a proposal from the Company Board of Directors. The conditions of the contract shall be approved by the Company Board of Directors.
47	Executive bodies provide monthly reports on their activities to the Board of Directors	Partially complied	Company Charterof Mosenergo, article 20, item 20.1., article 26)
48	The contracts made by the company with the CEO (managing entity, manager) and members of the Executive Board stipulate liability for violation of the provisions on the use of confidential and insider information	Complied	
	COMPANY SECRETARY		
49	There is a special official in the company (company Secretary) whose function is to ensure that the company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the company's shareholders	Complied	Company Charterof Mosenergo, article 20, item 20.1., article 14) Article 24. Provisions for the Board of Directors of Mosenergo, article 7.
50	The Company Charter or internal document prescribe a procedure for the appointment (election) of the company Secretary and responsibilities of the company Secretary	Complied	Company Charterof Mosenergo, article 20, item 20.1., article 13) Article 24. Provisions for the Board of Directors of Mosenergo, article 7.
51	The company's Charter contains requirements to the candidate for the position of the company Secretary	Partially complied	Company Charterof Mosenergo, article 20, item 20.1., article 13). Provisions for the Board of Directors of Mosenergo, article 7, item 7.2.
	MAJOR CORPORATE ACTIONS		
52	The Charter or internal documents of the company contain a requirement on approval of any major transaction before it is concluded	Complied	Company Charter of Mosenergo, article 15, item 15.1., article 17) Article 20, item 20.1., article 48)
53	Obligatory engagement of an independent valuator to assess the market value of any property that is subject to major transactions.	Complied	Company Charterof Mosenergo, article 20, item 20.1., article 37), 48)

N	Item of the corporate behavior Code	Compliance assessment	Note
54	In the event of acquisition of any large stakes in the company (takeover), the Charter of the company prohibits taking any actions aimed at the protection of interests of the executive bodies (members of such bodies) and members of the Board of Directors, and also such actions that make the position of shareholders worse than their current position (in particular, prohibition of a decision by the Board of Directors to issue additional shares, securities convertible into shares or securities granting right to acquire shares in the company before the end of the expected time of the acquisition of shares, even if the right to take such decision is granted by the Charter).	Not Complied	
55	The Company Charter contains a requirement on obligatory engagement of an independent appraiser to determine the current market value of shares and potential changes in their market value as a result of takeover.	Complied	Company Charterof Mosenergo, article 20, item 20.1., article 37)
56	The Charter of the company contains no exemption of the buyer from the obligation to offer buyout of the company's ordinary shares (other securities convertible into ordinary shares) to the shareholders upon takeover.	Complied	
57	The Charter or internal documents of the company contain a mandatory requirement to involve independent valuators for determining the ratio for conversion of shares in case of reorganization.	Complied	Company Charterof Mosenergo, article 20, item 20.1., article 37)
	INFORMATION DISCLOSURE		
58	There is an internal document approved by the Board of Directors determining policies and procedures used bythe company for the disclosure of information (Regulation on Information Policies).	Complied	Mosenergo's Informational Policy was approved by the BoD on 01/11/2004, Minutes 8.
59	The by-laws of the company contain a requirement to disclose purposes of placement of shares, persons that intend to acquire shares placed, including large stakes, and participation of officials of the company in the acquisition of the shares placed.	Not Complied	The Company shall disclose all required information in compliance to legislation of the Russian Federation, the Charter and by-laws of the Company.
60	The by-laws of the company contain a list of information, documents and materials that should be provided to shareholders for the decision on the issues put for the consideration of the General Meeting.	Complied	Company Charterof Mosenergo, article 17, item 17.17. Provisions for General Shareholder Meeting of Mosenergo, article 5, item 5.6. Provisions for information policy of Mosenergo, article 5, item 5.9.5.
61	The company has a web site and regularly discloses information about the company on the web site.	Complied	Provisions for information policy of Mosenergo, article 4, item 4.7. www.mosenergo.ru
62	The by-laws of the company contain a requirement to disclose information on the deals of the company with persons that are senior executives of the company in accordance with the Charter, and deals of the company with entities where senior executives of the company directly or indirectly hold 20 or more percent of the share capital or on which such persons may otherwise exercise significant influence.	Complied	Provisions for information policy of Mosenergo, article 4, item 4.4., article 4.4.4.
63	The by-laws of the company contain a requirement to disclose information on all transactions that may affect the market value of the company's shares.	Complied	Company Charterof Mosenergo, article 32, item 32.4.
64	There is an internal document approved bythe Board of Directors on the use of significant information on the activity, shares and other securities of the company and transactions with such shares and other securities, which is not publicly available and the disclosure of which may have material impact on the market value of shares and other securities of the company.	Complied	Mosenergo's Informational Policy was approved by the BoD on 01/11/2004, Minutes 8. Mosenergo's Informational Policy was approved by the BoD on 01/11/2004, Minutes 9.
	CONTROL OF FINANCIAL AND BUSINESS ACTIVITIES		
65	There are internal control procedures over the financial and operational activities of the company approved bythe Board of Directors.	Complied	Mosenergo's Informational Policy was approved by the BoD on 05.09.2005, Minutes 7, paragraph . 5.
66	There is a special subdivision of the Commany responsible for implementation of the internal control procedures (internal audit department).	Complied	
67	The internal documents of the company contain requirement for the structure and composition of the internal audit department to be defined by the Board of Directors.	Partially complied	Mosenergo's Informational Policy was approved by the BoD on 05.09.2005, Minutes 7, paragraph . 8.
68	There are no persons in the internal control service convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Complied	

N	Item of the corporate behavior Code	Compliance assessment	Note
69	There are no persons in the internal audit service who serve as members of the executive bodies of the company, as well as members, the CEO (manager), members of the management bodies or employees of any competitor of the company.	Complied	
70	The by-laws of the company establish dates for the submission of documents and materials to the internal control service for the assessment of financial and operational transactions performed, and liability of officials and employees of the company for failure to provide them in time.	Partially complied	Partially It shall be included in the inspection plan and Complied procedure according to the Regulation on Internal Audit of OJSC Mosenergo
71	The by-laws of the company provide for the obligation of the internal control service to communicate any violations detected to the Audit Committee, and where there is no such committee to the Board of Directors.	Complied	Provisions for internal control of Mosenergo, article 7, item 7.1., article 7.1.4.
72	The company Charter contains a requirement on preliminary assessment of the practicality of transactions not envisaged in the company's financial and operational plan (unusual transactions) by the internal control service.	Not Complied	
73	The by-laws of the company establish a procedure for the agreement of any unusual transactions with the Board of Directors.	Not Complied	
74	There is an internal document determining the procedure of audits of the financial and operating activities by the internal audit commission, approved bythe Board of Directors.	Not Complied	The Regulations on the Audit Commission of Mosenergo was approved bythe General Meeting of Shareholders of Mosenergo, minutes 1 of 18.06.2010.
75	The Audit Committee performs an assessment of the auditor's report before it is presented to the shareholders in the General Meeting.	Complied	Provisions for the Audit committee of Mosenergo, article 3, item 3.1., article 2)
	DIVIDENDS		
76	There is an internal document approved by the Board of Directors used as guidance by the Board of Directors in developing recommendations as to the amount of dividends (Regulation on Dividend Policies).	Complied	Dividend policy of Mosenergo was approved by the decision of the Board of Directors of December 24, 2010, Minutes 10..
77	The Regulation on Dividend Policies contains a procedure for the determination of the minimum share of the net profit of the company used for the payment of dividends, and conditions under which dividends are not paid or are not paid in full on preferred shares for which the size of dividends is determined in the company Charter.	Partially complied	Mosenergo did not issue privilleged shares
78	Publication of information on dividend policies of the company and any amendments thereto in a periodical stipulated in the company's charter for publication of announcements on General Meetings, and on the web site of the company in the Internet.	Partially complied	The dividend policy or any changes thereto are published on the Mosenergo web site at www.mosenergo.ru

Information about interested party transactions

The management bodies of the Company approved 2,260 transactions in which there was an interested party during the reporting year.

List of the interested party transactions for 2010 that were approved by Mosenergo management bodies according to the article 83 of the Federal Law "On joint stock companies"

№	Transaction	Parties	Subject of the transaction	Cost of transaction	Period of performance	Approval of the transaction
1	Additiona agreement to the property lease contract	Mosenergo is the lessor "Moscow unified grid company" - lessee	Amendment to the lease agreement renewed for undefined period changning the rental charge	109,109,298.11 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 10 of 19.02.2010, item 20
2	Additiona agreement to the contract	Mosenergo is the customer"Moscow unified grid company" – contractor	Services of transmission of heat and coolant via the heating network owned by the contractor.	13,221,751,190.85 roubles with VAT	From 01.01.2010 to 31.03.2010 inclusively	THE TRANSACTION APPROVED by Board of Directors meeting minutes 10 of 19.02.2010, item 21
3	Additiona agreement to the oil supply contract	"Gazprom gazenergoset" OJSC – supplier Mosenergo - customer	Oil product shipment in April 2010	1,224,000 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 16.06.2010 item 5
4	Agreement	"Sibur Holding" OJSC – supplier Mosenergo - customer	Supply of sodium hydroxide for Mosenergo affiliates	52,554,613.44 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 1 of 16.06.2010 item 6
5	Agreement	Mosenergo is the customer "Gazprom energoholding" LLC - contractor	Services to increase management system efficiency and reduce the costs of the Customer organization.	80,574,440 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 9 of 28.12.2009 item 3
6	Additiona agreements to insurance contract	"Sogaz" OJSC - insurer Mosenergo - insurant	Changes to the list of insured persons	104,269,012.17 rubles	The insurance agreement is signed for the period of 1 year.	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 15 of 05.05.2010 item 17
7	Additiona agreements to property insurance contract	"Sogaz" OJSC – insurer Mosenergo - insurant	Increase of the indemnity limits without the increase of the insurance premium		The insurance agreement is signed for the period of 1 year.	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 8 of 15.12.2009 item 11
8	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplier Mosenergo - customer	Oil product shipment in June 2010	189,000 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 1 of 16.06.2010 item 4
9	Agreement	Mosenergo is the customer "Gazenergoprombank" CJSC - Bank	Depositary transactions with the use of "GEPB-Trade" system	13,679,200,000 rubles	Period not defined	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.2
10	Additional agreement to the contract for keeping the registry of the owners of inscribed securities	"SR-DRAGa" CJSC – registrar Mosenergo is the issuer	Services associated with preparation and organization of annual General shareholder meeting	19,420,628.68 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 15 of 05.05.2010 item 15
11	Additiona agreement to the contract	Mosenergo is the customer "Moscow unified grid company" - contractor	Services of transmission of heat and coolant via the heating network owned by the contractor.	3,705,500,000.00 roubles with VAT	From 01.04.2010 to 30.06.2010 inclusively	THE TRANSACTION APPROVED by Board of Directors meeting minutes 16 of 03.06.2010, item 21
12	Additiona agreement to the contract	Mosenergo is the customer "TEK Mosenergo" OJSC - contractor	The parties agreed to change the cost of the contract for supply of equipment and performance of work at TPP-21 and the period of performance thereof	156,742,861.33 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 16 of 03.06.2010,item 4

№	Transaction	Parties	Subject of the transaction	Cost of transaction	Period of performance	Approval of the transaction
13	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplier Mosenergo - customer	Oil product shipment in July 2010	1,193,250 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 1 of 30.06.2010, item 4
14	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplier Mosenergo - customer	Oil product shipment in July 2010	17,600,000.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 1 of 30.06.2010, item 4
15	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplier Mosenergo - customer	Oil product shipment in August 2010	26,600,000.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 1 of 30.06.2010,item 4
16	Additiona agreement to the contract	Mosenergo is the customer"Moscow unified grid company" - contractor	Services of transmission of heat and coolant via the heating network owned by the contractor.	2,007,200,000.00 roubles with VAT	From 01.07.2010 to 30.09.2010 inclusively	THE TRANSACTION APPROVED by Board of Directors meeting minutes 16 of 03.06.2010, item 21
17	Additiona agreement to the contract	Mosenergo is the customer"Moscow unified grid company" - contractor	Services of transmission of heat and coolant via the heating network owned by the contractor.	8,827,710,000.00 roubles with VAT	From 01.12.2010 to 31.12.2010 inclusively	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.11
18	Additiona agreement to the contract	"Sogaz" OJSC - insurer Mosenergo - insurant	Revision of property list		The insurance agreement is signed for the period of 1 year.	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 8 of 15.12.2009 item 11
19	Leasing agreement	Mosenergo is the lessor TsRMZ (central mechanical maintenance plant) LLC - lessee	The lessor provides and the lessee rents the real estate and movable property located at the address: 109428, Moscow, Ryazansky prospect, 10	54,347,192.94 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors Meeting minutes 3 of 10.09.2010 item 8
20	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplier Mosenergo - customer	Oil product shipment in October 2010	314,500.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 1 of 30.06.2010, item 4
21	Agreement	Mosenergo is the customer "Gazprombank" OJSC - Bank	Depositing free monetary assets	12,109,800,000.00 rubles	Period not defined	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.5
22	Agreement.	Mosenergo (energy supply organization) Subscribers (customers) "Moscow heat network company" (heat distribution organization)	Distribution (sale) of heat with coolant via connected network of the heat distribution organization	477,741,746.60 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.10
23	Additiona agreement to the contract	Mosenergo is the customer "SR-DRAGa" CJSC – contractor	Organization of payment of dividends according to the decision of the annual general meeting of Mosenergo shareholders	31,656,357.50 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 6 of 18.10.2010 item 5
24	Additiona agreement to the contract	Mosenergo is the customer "Moscow unified grid company" - contractor	Services of transmission of heat and coolant via the heating network owned by the contractor.	11,718,000,000.00 roubles with VAT	From 01.01.2011 to 31.03.2011 inclusively	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.11
25	Property insurance contract	"Sogaz" OJSC - insurer Mosenergo - insurant	Copmany property insurance	290,082,193.07 rubles	The insurance agreement is signed for the period of 1 year.	TRANSACTION APPROVED by Board of Directors , meeting minutes 1 of 18.06.2010 item 12.12

№	Transaction	Parties	Subject of the transaction	Cost of transaction	Period of performance	Approval of the transaction
26	Purchase and sale agreement	Mosenergo - sellerMosenergsbit OJSC - buyer	The seller transfers into the ownership of the buyer a building and a structure – metal fence of a ferroconcrete foundation - at the following address: Moscow, Kulakova street 25 bld 3, and the Buyer undertakes to accept the assets and pay in exchange for them the amount specified in the agreement.	160,730,160.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 7 of 23.11.2010 item 4
27	Purchase and sale agreement	Mosenergo – seller Mosenergsbit OJSC - buyer	Purchase and sale of electricity and capacity via stock exchange trading	1,674,494,771.88 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 3 of 10.09.2010 item 5
28	Additiona agreement to the lease contract	Mosenergo is the lessor Mosenergsbit OJSC - lessee	Change of the rental charges for real estate at Michurinsky prospect 15A	3,466,142.42 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 24.12.2010 item 17
29	Insurance contract	"Sogaz" OJSC - insurer Mosenergo - insurant	Insuring Mosenergo employees against injures and illness	14,015,720.00 rubles	The insurance agreement is signed for the period of 1 year.	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 24.12.2010 item 7
30	Insurance contract	"Sogaz" OJSC - insurer Mosenergo - insurant	Voluntary medical insurance of Mosenergo employees	100,491,444.00 rubles	The insurance agreement is signed for the period of 1 year.	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 24.12.2010 item 7
31	Additiona agreement to the contract	"Gazpromneft – Center" LLC as supplierMosenergo - customer	Oil product shipment in September 2010	7,275,000.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	THE TRANSACTION APPROVED by Board of Directors meeting minutes 1 of 30.06.2010,item 4
32	Additiona agreement to the contract	"Gazprom gazenergoset" OJSC – supplier Mosenergo - customer	Oil product shipment in September 2010	249,480,000.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 16.06.2010 item 5
33	Contract	Mosenergo is the customer TsRMZ (central mechanical maintenance plant) LLC - contractor	Supply of equipment and performing work for the project "replacement of convective part of steam-water pipelines of TPP-21	29,318,280.00 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 18.10.2010 item 4
34	Agreement	Mosenergo is the customer "TEK Mosenergo" OJSC - contractor	Research and design activities (hereafter – services) for the capital construction project: "replacement of a boiler for the boiler of E-160-3,9-440 type at Smidovich TPP-1 – affiliate of Mosenergo.	82,600,000 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 23.11.2010 item 6
35	Purchase and sale agreement	Mosenergo – seller Mosenergsbit OJSC - buyer	The seller transfers into the ownership of the Buyer a building at the address: Moscow, Bakhrushina street 9 bld 1, and the Buyer undertakes to accept the asset and pay in exchange for it the amount specified in the agreement.	288,494,660 roubles with VAT	Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 18.10.2010 item 3
36	Capacity supply agreement	Mosenergo, wholesale electricity market participants including "SO UEC" OJSC	Services of making available the operational generating facilities		Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 5 of 15.10.2010, item 1
37	Capacity supply agreement	Mosenergo, wholesale electricity market participants including "SO UEC" OJSC	Services of making available the electric capacity in the framework of implementation of regional and territorial generating company investment programs		Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 5 of 15.10.2010, item 1
38	Capacity supply agreement	Mosenergo, wholesale electricity market participants including "SO UEC" OJSC	Services of making available the operational hydro- and nuclear generating facilities		Until the contractual obligations of the parties are completely fulfilled	TRANSACTION APPROVED by Board of Directors , meeting minutes 10 of 24.12.2010 item 8

There were no major transactions concluded by the Company during the reporting year, for which the procedure of approval of large transaction is applicable in accordance with the Charterof the Company.

Information policy

OJSC Mosenergo enforces an open information policy in the company. The Company's operations are regulated by principles of corporate governance accepted in civilised business, as well as principles of social responsibility and reliable partnership with public authorities.

Informational Policy of Mosenergo is aimed at timely and comprehensive presentation of credible information about the Company activities, as well as providing free access to such information to all interested parties: shareholders, investors, public officials, mass media etc.

Within the framework of Informational Policy implementation Mosenergo organised 13 press tours to the Company's power plants in 2010. The Company published 41 press releases; more than 300 publications were issued in printed media and 18 TV broadcasts on federal and regional channels. Besides that, Mosenergo participated in major industry exhibitions and conferences.

The key information resource of the Company is Mosenergo's official web site (http://www.mosenergo.ru). This web site provides full information about the Company operations and allows us to respond promptly to inquiries submitted by shareholders, investors, public officials and the media. The web site publishes annual and quarterly Company reports for the benefit of shareholders, quarterly issuer reports, RAS and IFRS accounting statements, other information that can affect the value of securities.

Consolidated financial statements

(prepared in accordance with RAS)
for the year ended 31 December 2010

'Mosenergo' Open Joint Stock Company of Power and Electrification. Auditor report on the financial statements for 2010

AUDITOR REPORT

To shareholders of the Open Joint Stock Company of Power and Electrification 'Mosenergo'

Audited entity
Open Joint Stock Company of Power and Electrification 'Mosenergo' (short name - 'Mosenergo' OJSC).

The Certificate of State Registration number 012.473, issued by the Moscow Registration Chamber on April 6, 1993.

The Certificate of Record in the Unified State Register of Legal Entities about the legal entity registered before July 1, 2002, number 1027700302420 dated October 11, 2002, was issued by the Moscow Administration of the Ministry of Taxes and Levies of the Russian Federation.

Vernadskogo prospect, 101 bld. 3, Moscow, 119526.

Auditor
Closed Joined Stock Company "PriceWaterhouseCoopers Audit" (PwC Audit CJSC) registered at the address: Butirsky val street 10, Moscow, Russian Federation, 125047.

State registration certificate of the company № 008.890 was issued by the Moscow Registration Chamber on February 28, 1992.

Certificate of record in the Unified State Register of Legal Entities regarding the legal entity registered before July 1, 2002 No.1027700148431, issued by the Interdistrict Inspectorate No.39 for Moscow city of the Russian Ministry of Taxes and Levies on August 22, 2002.

Member of the non-profit partnership 'Audit Chamber of Russia' (NP ACR) which is a self-regulating organization of auditors - registration record No.870 in the Registry of Members of NP ACR.

The main registration record number (ORNZ) in the Register of Auditors and Audit Organizations is 10201003683.

AUDITOR REPORT

To shareholders of the Open Joint Stock Company of Power and Electrification 'Mosenergo':

We have audited the attached Accounting Reports of Open Joint Stock Company of Energy and Electrification 'Mosenergo' (hereinafter - the Company) for the period from January 31 through December 31, 2009. The Company's Accounting Reports include the Balance Sheet, Profit and Loss Statement, Change of Capital, Cash Flow Statement, other appendices to the Balance Sheet, Explanatory Note to the Balance Sheet (hereinafter - Accounting Reports).

Responsibility of the Company for the accounting reports

The Company Management is responsible for production and accuracy of the said accounting reports according to the accounting rules and standards established in the Russian Federation and for the system of internal controls required for production of the financial statement without substantial inaccuracies caused by fraud or errors.

The auditor responsibilities

Our responsibilities include expressing the opinion about the present consolidated financial statements based on the performed audit. The audit was performed in compliance with the federal and international auditing standards. These standards require us to conform to the norms of ethics, to plan and conduct the audit in such a manner as to provide reasonable level of confidence that the present consolidated financial statements do not contain any considerable inaccuracies.

The audit includes implementation of certain procedures to obtain auditor's proofs confirming the numeric information presented in the consolidated financial statements and the information disclosed therein. The choice of audit procedures was made at our discretion based on the assessment of the risks of substantial inaccuracies being contained in the financial statements due to fraud or error. For the purpose of assessment of this risk, we appraised the system of internal controls ensuring production and accuracy of the financial statements in order to select appropriate audit procedures, but without the intent to express opinion about effectiveness of the internal control system The audit also included evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Company Management, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence collected during this audit provides adequate ground for expressing our opinion on the accuracy of these Accounting Reports.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31 2010, its financial performance and $cash flow for the year then ended in accordance with the accounting standards of the Russian Federation.

Director of "PriceWaterhouseCoopers Audit" CJSC M.E. Timchenko

March 1, 2011

Approved by the order of the Ministry of Finance
of the Russian Federation № 67 of 22 July, 2003

ACCOUNTING BALANCE
As of December 31, 2010

		codes
	Form 1 OKUD	0710001
	Date (yyyy/mm/dd)	2010/12/31
Organization Mosenergo OJSC	OKPO	00102798
Taxpayer identification number	TIN	7705035012
Type of business: electric power industry, heat engineering	OKVED	40.10.11, 40.30.11
Organizational and legal form/ form of property	OKOPF /OKFS	47 / 16
Open joint stock company/mixed Russian proprety		
Measurement units: thousand rubles	OKEI	384
Address: Vernadskogo 101 bld.3, Moscow, 119526	Check sum	

ASSET	Parameter code	As of the beginning of the reporting period	As of the end of the reporting period
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets (04,05)	110	95	76
PP&E	120	131,628,691	126,902,842
Unfinished construction	130	16,477,548	15,356,219
Long-term financial investments	140	119,331	15,188
Deferred tax assets	145	20,620	39,178
Other non-current assets	150	413,449	326,667
TOTAL in section I	190	148,659,734	142,640,170
II. CURRENT ASSETS			
Inventory, including:	210	4,845,877	6,601,723
raw materials and other similar assets	211	4,496,613	6,374,513
costs of unfinished products	213	134,416	63,032
finished products and marketable goods for resale	214	1,850	254
expenses of future priods	216	212,998	163,924
Vallue added tax on acquired assets	220	1,195,816	1,194,246
Accounts receivable (payments for which are expected in more than 12 months after the reporting date)	230	4,311,100	2,224,973
Accounts receivable (payments for which are expected within12 months after the reporting date), including:	240	31,928,444	34,322,126
Customers and clients	241	14,368,127	15,829,886
Short term financial investments	250	12,809,587	24,579,579
Monetary assets	260	2,068,255	3,785,016
Other current assets	270	337,955	476,105
TOTAL in section II	290	57,497,034	73,183,768
BALANCE (sum of the lines 190+290)	300	206,156,768	215,823,938

LIABILITIES	Code	As of the beginning of the reporting period	As of the end of the reporting period
1	2	3	4
III. CAPITAL AND RESERVES			
Charter capital	410	39,749,360	39,749,360
Own shares bought out from shareholders	411	(870,825)	(870,825)
Premium on capital stock	420	125,489,967	125,333,433
Reserve capital, including	430	794,181	1,019,631
reserve funds created per statutory requirements	431	794,181	1,019,631
Undistributed profit (uncovered loss)	470	2,072,854	9,130,217
TOTAL for section III	490	167,235,537	174,361,816
IV. LONG TERM LIABILITIES			
Credits and borrowings	510	17,699,975	12,771,736
Deferred tax liabilities	515	4,146,140	4,792,937
Other long term liabilities	520	383,988	814,960
TOTAL for section IV	590	22,230,103	18,379,633
V. SHORT TERM LIABILITIES			
Credits and borrowings	610	2,416,391	5,333,040

LIABILITIES	Code	As of the beginning of the reporting period	As of the end of the reporting period
1	2	3	4
Accounts payable, including:	620	14,204,767	17,657,847
suppliers and cotractors	621	9,090,259	11,924,933
payroll liabilities	622	1,090	14
debt to state extrabudgetary funds	623	576	1,746
overtude taxes and levies	624	1,534,675	2,996,052
other creditors	625	3,578,167	2,735,102
Debt to members (founders) associated with payment of earnings	630	281	17,528
Future period incomes	640	62,850	74,074
Reserves for future expenses	650	6,839	-
TOTAL for section V	690	16,691,128	23,082,489
BALANCE (sum of the lines 490+590+690)	700	206,156,768	215,823,938

REFERENCE INFORMATION ABOUT OFF-BALANCE ASSETS

Title	Code	As of the beginning of the reporting period	As of the end of the reporting period
1	2	3	4
Rented property, plant and equipment	910	42,840,422	43,127,135
leasing	911	508,220	878,058
Material assets accepted for safekeeping	920	13,894	49,215
Debts of insolvent debtors written off as losses	940	1,237,964	1,528,072
Collaterals for payments and liabilities received	950	3,727,424	1,616,791
Collaterals for payments and liabilities issued	960	296,165	208,249
Depreciation of residential accommodations	970	5,059	5,177

CEO__________V.G. Yakovlev
signature

Chief Accountant__________S.A. Suraev
signature

« 01 » March 2011

Approved by the order of the Ministry of Finance of the Russian Federation № 67 of 22 July, 2003

PROFIT AND LOSS STATEMENT for 2010

		Codes
	Form N2 OKUD	0710002
	Date (yyyy/mm/dd)	2010/12/31
Organization: Mosenergo OJSC	OKPO	00102798
Taxpayer identification number	INN (TIN)	7705035012
Type of business: electric power industry, heat engineering	OKVED	40.10.11,40.30.11
Organizational and legal form/ form of property	OKOPF /OKFS	47 / 16
Open joint-stock company/ mixed Russian property		
Measurement unit: thousand rubles	OKEI	384
Address: Vernadskogo 101 bld.3, Moscow, 119526		

Parameter	Code	For the reporting period	For the similar period of the previous year
1	2	3	4
I. PROFITS AND LOSSES FROM ORDINARY ACTIVITIES			
Revenues (net) from sales of goods, products and services (less VAT, excise taxes and other similar obligatory payments)	010	143,756,532	112,227,438
Prime cost of the sold goods, products and services	020	(134,048,832)	(104,996,841)
Gross earnings	029	9,707,700	7,230,597
Commercial expenses	030	(258,894)	(287,538)
Profit (loss) from sales	050	9,448,806	6,943,059
II. OTHER PROFITS AND LOSSES			
Interest receivable	060	1,337,236	1,320,406
Interest payable	070	(1,607,181)	(2,318,453)
Income from participation in other organizations	080	57,185	25,194
Other profits	090	4,880,791	6,049,438
Other losses	100	(3,540,906)	(5,046,056)
Profit (loss) befor tax	140	10,575,931	6,973,588
Deferred tax assets	141	18,558	13,722

Parameter	Code	For the reporting period	For the similar period of the previous year
1	2	3	4
Deferred tax liabilities	142	(646,797)	(1,284,028)
Current profit tax	150	(2,338,925)	(1,520,432)
Other similar obligatory payments	151	17,512	326,140
Net profit (loss) for the reporting period	190	7,626,279	4,508,990
FOR REFERENCE			
Permanent tax liabilities (assets)	200	840,577	1,062,323
Only for annual financial reporting			
Base profit (loss) per share	201	0.1925	0.1138
Diluted profit (loss) per share	202	0.0000	0.0000

BREAKDOWN TO INDIVIDUAL INCOMES AND LOSSES

Parameter title	Code	For the reporting period		For a similar period of the previous year	
		Profit	Loss	Profit	Loss
1	2	3	4	5	6
Fines, overdues and forefeits that were acknowledged or for which collection judgement was issued by the court (court of arbitration)	210	267,682	294,012	73,214	47,192
Profit (loss) from previous years	220	154,565	33,826	246,359	55,416
Compensation of lossess caused by failure to perform or failure to properly perform obligations	230	20,945	54,906	2,750	93,027
Foreign currency translation differences	240	261,488	22,002	108,385	154,059
Deductions to allowance account	250	X	533,181	X	209,324
Relief of payable and receivable debts, period of limitation of action for which has expired	260	393,146	2,484	5,859	12,108

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Chief Accountant__________S.A. Suraev
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« 01 » March 2011

Approved by the order of the Ministry of Finance
of the Russian Federation № 67 of 22 July, 2003

EQUITY CHANGE STATEMENT
for 2010

		Codes
	Form N3 OKUD	0710003
	Date (yyyy/mm/dd)	2010/12/31
Organization: Mosenergo OJSC	OKPO	00102798
Taxpayer identification number	INN (TIN)	7705035012
Type of business: electric power industry, heat engineering	OKVED	40.10.11,40.30.11
Organizational and legal form/ form of property	OKOPF /OKFS	47 / 16
Open joint-stock company/ mixed Russian property		
Measurement unit: thousand rubles	OKEI	384
Address: Vernadskogo 101 bld.3, Moscow, 119526		

I. EQUITY CHANGES

Parameter Title	Code	Charter capital	Share premium capital	Reserve capital	Undistributed profit 9com-pensated losses)	Own shares repurchased from share-holders	Total
1	2	3	4	5	6	7	8
Balance as of December 31 of the year preceding the last year	010	39,749,360	81,053,167	725,595	2,603,272	(898,804)	123,232,590
2009 (PREVIOUS YEAR)							
Results of revaluation of PP&E	012	X	44,850,026	X	(3,844,505)	-	41,005,521
Changes of accounting policy	013	X	-	X	(1,539,469)	-	(1,539,469)
Balance as of the 1st of January of the previous year	020	39,749,360	125,903,193	725,595	(2,780,702)	(898,804)	162,698,642
Net profit	025	X	X	X	4,508,990	-	4,508,990
Dividends	026	X	X	X		-	-

Parameter Title	Code	Charter capital	Share premium capital	Reserve capital	Undistributed profit 9com-pensated losses)	Own shares repurchased from share-holders	Total
1	2	3	4	5	6	7	8
Deductions to the reserve fund	030	X	X	68,586	(68,586)	-	-
Increase of equity at the expence of:	040	-	-	-	413,226	27,979	441,205
Other	044	-	-	-	413,226	27,979	441,205
Decrease of equity at the expence of:	050	-	(413,226)	-	(74)	-	(413,300)
Other	055	-	(413,226)	-	(74)	-	(413,300)
Balance as of December 31 of the last year	060	39,749,360	125,489,967	794,181	2,072,854	(870,825)	167,235,537
2010 (REPORTING PERIOD)							
Results of revaluation of PP&E	062	X	-	X	-	-	-
Changes of accounting policy	063	X	-	X	-	-	-
Balance as of the 1st of January of the reporting year	100	39,749,360	125,489,967	794,181	2,072,854	(870,825)	167,235,537
Net profit	105	X	X	X	7,626,279	-	7,626,279
Dividends	106	X	X	X	(500,000)	-	(500,000)
Deductions to the reserve fund	110	X	X	225,450	(225,450)	-	-
Increase of equity at the expence of:	120	-	-	-	156,534	-	156,534
Other	124	-	-	-	156,534	-	156,534
Decrease of equity at the expence of:	130	-	(156,534)	-	-	-	(156,534)
Other	135	-	(156,534)	-	-	-	(156,534)
Balance as of December 31 of the reporting year	140	39,749,360	125,333,433	1,019,631	9,130,217	(870,825)	174,361,816

II. RESERVES

Parameter title	code	Balance	Received	Used	Balance
1	2	3	4	5	6
Reserves, created according to the legislation:					
Reserve capital					
previous year data	150	725,595	68,586	-	794,181
reporting year data	151	794,181	225,450	-	1,019,631
Allowance reserves:					
allowance for doubtful debts					
previous year data	160	1,721,216	208,327	(346,327)	1,583,216
reporting year data	161	1,583,216	531,532	(779,099)	1,335,649
allowance for depreciation of financial investments					
previous year data	162	446	997	-	1,443
previous year data	163	1,443	1,649	-	3,092
contingency allowance					
previous year data	166	118,888	-	(112,049)	6,839
reporting year data	167	6,839	-	(6,839)	-

REFERENCES

Parameter title	code	Balance at the beginning of the reporting year		Balance at the end of the reporting year	
1	2	3		4	
1) Net assets	200	167,298,387		174,435,890	
		From the budget		From extrabudgetary funds	
		for the reporting year	for the previous year	for the reporting year	for the previous year
		3	4	5	6
2) Received for recurring expences - total, including:	210	461,201	389,073	-	331
payments to participants of Chernobil aftermath mitigation	211	-	-	-	-
other	212	461,201	389,073	-	331

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CASH FLOW STATEMENT
for 2010

		CODES
	Form N4 OKUD	0710004
Organization: Mosenergo OJSC	Date (yyyy/mm/dd)	2010/12/31
Taxpayer identification number	OKPO	00102798
Type of business: electric power industry, heat engineering	INN (TIN)	7705035012
Organizational and legal form/ form of property	OKVED	40.10.11,40.30.11
Open joint-stock company/ mixed Russian property	OKOPF /OKFS	47 / 16
Measurement unit: thousand rubles		
Address: Vernadskogo 101 bld.3, Moscow, 119526	OKEI	384

Title	Code	For the reporting period	For the previous year
1	2	3	4
Opening cash balance at the beginning of the year	010	2,067,484	2,820,170
CASH FLOW FROM CURRENT OPERATIONS			
Cash received from clients and customers	020	161,680,082	123,923,332
Other incomes (revenues)	050	953,657	1,680,632
Cash used for:			
payment for procured goods, services, raw materials and other current assets	150	(121,548,890)	(88,918,351)
for remuneration of labor	160	(6,421,196)	(6,430,701)
for payment of interest and dividents	170	(2,245,801)	(2,415,314)
intirest	1701	(1,755,044)	(2,415,314)
dividents	1702	(490,757)	-
for taxes and levies	180	(9,554,662)	(9,797,712)
social payments	183	(437,696)	(587,897)
for tother expenses (payments)	190	(1,727,940)	(7,906,115)
payments to federal extrabudgetary funds	1901	(1,031,190)	(1,206,432)
advance payments	1903	(364,541)	(4,075,067)
other expences	1904	(332,208)	(2,624,616)
Net cash from current operations	200	20,697,554	9,547,874

Title	Code	For the reporting period	For the previous year
1	2	3	4
CASH FLOW FROM INVESTMENT ACTIVITIES			
Revenues from disposal of PP&E items and other non-current assets	210	349,783	3,899,476
Revenues from disposal of securities and other financial invesments	220	1,250,069	1,041,366
Dividents received	230	52,038	22,926
Interest received	240	136,419	77,088
Deposit repayment	250	-	5,001,000
Income from redemption of the loans given to other organizations	260	12,768,875	606,125
Deposit placement	270	-	(5,001,000)
Acquisition of PP&E items, interest-bearing investments into tangible and intangible assets	280	(4,664,056)	(9,049,074)
Acquisition of securities and other financial investments	290	(24,528,800)	-
Other expenses	310	(2,239,897)	(3,546,856)
advance payments	3101	(2,239,897)	(3,277,440)
other expences	3102	-	(269,416)
Net cash from investment activities	320	(16,875,569)	(6,948,949)
CASH FLOW FROM FINANCIAL ACTIVITIES			
Income from loans and credits given to other organizations	340	232,343	15,766,341
Repayment of loans and credits (without interest)	360	(2,000,000)	(18,711,271)
Payment of financial lease liabilities	370	(290,651)	(405,989)
Other expenses	380	(46,145)	-
Net cash flow from financial activities	390	(2,104,453)	(3,350,919)
Net increasse (decrease) of cash and cash equivalents	400	1,717,532	(751,994)
Cash balance at the end of the reporting period	410	3,785,016	2,068,176
Effect of the translation difference of foreign currencies into rubles	420	(692)	7

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APPENDIX TO THE ACCOUNTING BALANCE for 2010

		CODES
	Form N5 OKUD	0710005
Organization: Mosenergo OJSC	Date (yyyy/mm/dd)	2010/12/31
Taxpayer identification number	OKPO	00102798
Type of business: electric power industry, heat engineering	INN (TIN)	7705035012
Organizational and legal form/ form of property	OKVED	40.10.11,40.30.11
Open joint-stock company/ mixed Russian property	OKOPF /OKFS	47 / 16
Measurement unit: thousand rubles		
Address: Vernadskogo 101 bld.3, Moscow, 119526	OKEI	384

INTANGIBLE ASSETS

Parameter: title	code	Availability at the beginning of the reporting year	Received	Disposed of	Availability at the end of the reporting year
1	2	3	4	5	6
Intellectual property items (exclusive rights for the results of intellectual property), including:	010	147	-	-	147
owner of trade mark, service mark, and appelation of origin of goods	014	147	-	-	147
TOTAL	045	147	-	-	147

Parameter: title	code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
Amortization of goodwill-total, including:	050	52	71
owner of trade mark, service mark, and appelation of origin of goods	051	52	71

PROPERTY, PLANT AND EQUIPMENT

Parameter: title	code	Availability at the beginning of the reporting year	Received	Disposed of	Availability at the end of the reporting period
1	2	3	4	5	6
Buildings	110	82,926,047	36,017	354,022	82,608,042
Structures and transmission facilities	111	81,372,990	1,622,773	265,111	82,730,652
Machinery and equipment	112	154,741,608	4,071,197	68,191	158,744,614
Transport vehicles	113	1,083,914	1,041	122,413	962,542
Paraphernalia and household equipment	114	278,750	41,272	5,693	314,329
Perennial plants	117	147	-	-	147
Other types of property, plant and equipment	118	132,516	-	18,699	113,817
Land plots and environmental facilities	119	6,745	-	85	6,660
TOTAL	130	320,542,717	5,772,300	834,214	325,480,803

Parameter: title	code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
Depreciation of fixed assets, including:	140	188,914,026	198,577,961
buildings and structures	141	84,541,773	87,781,015
machinery, equipment and vehicles	142	104,114,412	110,509,265
other	143	257,841	287,681
Fixed assets leased out, including:	150	47,283,744	48,531,607
buildings	151	2,383,928	4,199,338
structures	156	44,319,679	43,730,127
machinery, equipment and vehicles	152	579,619	570,070
other	153	518	32,072
Fixed assets conserved	155	242,064	246,957
Fixed assets rented - total, including:	160	42,840,422	43,127,135
buildings and structures	161	387,969	387,969
machinery, equipment and vehicles	162	144,113	490,089
other	163	42,308,340	42,249,077
Real estate objects undergoing statutory registration accepted into operation	165	7,234,354	4,455,324

Parameter title	code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
FOR REFERENCE PURPOSES			
Results of revaluation of fixed assets:	170	-	41,005,521
initial (reinstatement) cost	171	-	86,750,420
depreciation	172	-	45,744,899

Parameter title	code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
Change of the cost of fixed assets due to completion of construction, reequipment, renovation or partial liquidation	180	1,450,672	2,071,741

FINANCIAL INVESTMENTS

Parameter title	code	Long term		Short term	
		At the beginning of the reporting year	At the end of the reporting year	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4	5	6
Contributions to charter (pooled) capitals of other organizations, total, including:	510	111,396	10,063	-	-
subsidiaries and dependent organizations	511	54,587	4,587	-	-
Securities of other organizations, total	520	9,378	8,217	-	1,161
Debt instruments (debentures, bonds)	521	9,378	8,217	-	1,161
Loans given	525	-	-	12,768,875	-
Depositary accounts	530	-	-	-	24,528,800
Other	535	-	-	40,712	49,618
TOTAL	540	120,774	18,280	12,809,587	24,579,579
From the total amount of financial investments having current market value:					
Contributions to charter (pooled) capitals of other organizations, total	550	51,333	-	-	-
TOTAL	570	51,333	-	-	-
FOR REFERENCE PURPOSES					
For financian investments having current market value, change due to revaluation	580	24,151	-	-	-

ACCOUNTS PAYABLE AND RECEIVABLE

Parameter title	code	Balance at the beginning of the year	Balance at the end of the year
1	2	3	4
Accounts receivable			
short term - total, including:	610	33,480,481	35,657,775
settlements with customers and buyers	611	15,679,874	17,055,976
advance payments made	612	15,182,609	15,316,569
other	613	2,617,998	3,285,230
long term - total, including:	620	4,342,279	2,224,973
advance payments made	622	4,279,325	2,201,983
other	623	62,954	22,990
TOTAL	630	37,822,760	37,882,748
Accounts payable			
short term - total, including:	640	16,621,158	22,990,887
settlements with suppliers and contractors	641	9,090,259	11,924,933
advances received	642	1,745,562	2,021,164
settlements on taxes and levies	643	1,534,675	2,997,798
credits	644	3,468	365,844
borrowings	645	2,412,923	4,967,196
other	646	1,834,271	713,952
long term - total, including:	650	18,083,963	13,586,696
credits	653	3,287,732	2,988,822
borrowings	654	14,412,243	9,782,914
other	655	383,988	814,960
TOTAL	660	34,705,121	36,577,583

RECURRENT EXPENSES (BY ELEMENTS)

Parameter title	code	For the reporting year	For the previous year
1	2	3	4
Material expenses	710	108,493,368	80,301,284
Labor expenses	720	7,206,941	7,235,990
Deductions for social welfare	730	1,050,019	1,214,041

Parameter title	code	For the reporting year	For the previous year
1	2	3	4
Amortization and depreciation	740	10,225,765	9,963,005
Other costs	750	7,331,633	6,570,059
Total by cost elements	760	134,307,726	105,284,379
CHANGE OF THE BALANCE (INCREASE [+], DECREASE [-]):			
of incomplete construction	765	(71,384)	52,941
of future period expenses	766	(135,856)	270,680
of the reserves for future expenses	767	6,839	0

COLLATERALS

Parameter title	code	Balance at the beginning of the reporting year	Balance at the end of the reporting period
1	2	3	4
Received - total, including:	810	3,727,424	1,616,791
assets pledge, out of which:	820	35,639	35,639
property, plant and equipment	821	5,753	5,753
other	823	29,886	29,886
Issued - total	830	296,165	208,249

STATE ASSISTANCE

Parameter title	code	Reporting period	Similar period of the previous year
1	2	3	4
Received from budget in the reporting year, including:	910	461,160	388,795
Other	912	461,160	388,795

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« 01 » March 2011

EXPLANATORY NOTE TO THE FINANCIAL STATEMENTS OF MOSENERGO OJSC FOR THE YEAR 2010

I. BACKGROUND

1. General information

The Open Joint Stock Company "Mosenergo" (Mosenergo OJSC) is a regional energy company primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The share of the revenues of the Company from the core businesses listed above amounts to 98.20% of all revenues from goods, services and work sold in 2010 (compared to 92.78% in 2009).

Mosenergo OJSC (hereinafter – the Company) was registered as a legal entity in the Russian Federation on April 6, 1993 according to the decree № 169-R issued by the Property Management Committee on March 26, 1993. As a result of privatization of the Russian power industry, the state owned enterprise Mosenergo was reorganized into an open joint stock company, and some assets and liabilities that used to be under control of the RF Ministry of Fuel and Energy were transferred to the Company balance.

The certificate of state registration was issued by the Moscow Chamber of Registration of the Moscow government on April 6, 1993. The certificate of the record entered into the Unified state registry of legal entities about the company incorporated before the 1st of July 2002 under the number № 1027700302420 of October 11, 2002 was issued by the Moscow Department of the RF Ministry for taxation. The legal address of the company is 101 bld. 3, Vernadskogo prospect, Moscow 119526.

The shares of the Company are quoted at the Moscow interbank currency exchange (MICEX) and RTS stock exchange. In April 2009, Gazprom OJSC transferred its 53.47% share in the Company to its 100% subsidiary "Gazpromenergoholding" LLC. As of December 31, 2010, the shares are distributed as follows:

- 53.468% are owned by Gasprom energoholding LLC;
- 26.446% are owned by the Department of Property of Moscow;
- 16.206% are owned by other legal entities and nominal holders;
- 3.527% are owned by physical perosns;
- 0.353% are own shares repurchased from shareholders.

Average stuff of the company in 2010 was 9,055 individuals (versus 12,599 individuals in 2009).

2. Affiliates (structural subdivisions)

As of December 31, 2010, the Company included 17 territorially segregated affiliates:

Name of the affiliate (structural subdivision)	Legal address
HPS-1 named after P.G. Smidovich	Sadovnicheskaya street 11, Moscow, 115035
GRES-3 named after R.E. Classon	Electrogorsk, Moscow region, 142530
TPP-8	Ostapovsky drive 1, Moscow, 109316
TPP-9	Avtozavodskaya street 12 bld. 1, Moscow, 115280
TPP-11 named after M.Ya Ufaev	Shosse Entuziastov 32, Moscow, 111024
TPP-12	Berezhkovskaya embankment 16, Moscow, 123995
TPP-16	3rd Khoroshevskaya street 14, Moscow, 123298
TPP-17	Frunze street 19, Stupino, Moscow region 142800
TPP-20	Moscow, 117312 Vavilova street 13 bld
TPP-21	Moscow, 125412 Izhorskaya street 9 bld
TPP-22	Energetikov street 5, Dzerzhinsky, Moscow region, 140091
TPP-23	Montazhnaya street 1/4, Moscow, 107497
TPP-25	General Dorokhov street 16, Moscow, 119530
TPP-26	Vostryakovsky drive house 10, Moscow, 117403
TPP-27	Chelobityevo, Mitishi district, Moscow region, 141031
Teplosbit	Aptekarsky pereulok 4, Moscow, 105005
"Shatursky" agro-industrial complex ("Shatursky" AIC)	Petrovskoye, Shatura district, Moscow region, 140711

Based on the Director Board decision № 10 of February 19, 2010 and № 16 of May 31, 2010 about liquidation of the affiliates of the Company, the following affiliates were liquidated in 2010:
- Motor transport department (MTD);
- Data processing center (DPS);
- Mosenergonaladka (MEN) adjustment service;
- Moselectroremenergo (MERE) maintenance service;
- Energotorg trade and procurement service;
- heat transmission networks;
- Central mechanical maintenance plant;
- Energosvyaz (communications).

In the framework of the measures to optimize the organizational structure and property management of the Company, the Board of Directors passed on September 10, 2010 a decision to liquidate the affiliate "Shatursky agro-industrial complex" (Shatura AIC). This decision is expected to be implemented in the 1st quarter of 2011.

3. Core businesses

The core businesses of the Company are as follows: generation of electricity and heat, supply distribution of electricity and heat, procurement (purchasing) electricity from the wholesale market of electric energy and capacity, operation of heat supply networks, design and feasibility studies.

The company also has other businesses, including the following: rendering communication services, rendering information and data processing services, agricultural business, commercial activities etc.

4. Information about the Company management, executive and controlling bodies

The Director General of Mosenergo OJSC is Yakovlev Vitaly Georgievich elected by the resolution of the Board of Directors of the Company on March 25, 2008 (minutes №25).

Before the annual General shareholder meeting of June 16, 2010, the company management, executive and control bodies included:

BOARD OF DIRECTORS

Full name	Position held at the moment of election to the Board of Directors of Mosenergo
Biryukov Pavel Pavlovich	First deputy of Moscow Mayor in the Government of Moscow, head of the Municipal service and facilities of Moscow
Gavrilenko Anatoly Anatolievich	General Director of "Lider" CJSC
Golubev Valery Alexandrovich	Deputy Chairman of the Governing Board of "Gazprom" OJSC
Dushko Alexandr Pavlovich	Deputy head of the economics and finance Department of Gazprom OJSC, financial director of "Gazprom energoholding" LLC
Ignatov Igor Vyacheslavovich	Deputy head of the Department of Property of Moscow
Mityushov Alexey Alexandrovich	Director General of "Gazpromenergo" LLC, Director Generalof OGK-6 OJSC
Pavlova Olga Petrovna	Head of the Department of property management and corporate relations of "Gazprom" OJSC, member of the Governing Board
Seleznev Kirill Genadievich	Chairman of the Board of Directors of Mosenergo OJCS, member of the Governing Board, head of the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJCS, Director General of "Mezhregiongaz" LLC
Silkin Vladimir Nicolaevich	Deputy of Moscow Mayor in the Government of Moscow, head of the Municipal land property service of Moscow, Head of the Department of property of Moscow
Sklyarov Evgeny Viktorovich	Head of the fuel and energy Department of Moscow

Full name	Position held at the moment of election to the Board of Directors of Mosenergo
Fedorov Denis Vladimirovich	Head of the Office of development of electricity sector and marketing in the electricity sector in the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJSC
Shulginov Nikolay Grigorievich	Deputy Chairman of the Governing Board of "SO EES" OJSC
Yakovlev Vitaly Georgievich	Director General of "Mosenergo" OJSC

INTERNAL AUDIT COMMISSION

Full name	Position held at the moment of election to Internal Audit Commission of Mosenergo
Beloborodov Andrey Victorovich	Deputy head of the Department of internal audit and monitoring of financial and business activities of subsidiary companies and organizations of the Governing Committee Administration – head of the Department of monitoring of the activities of the organizations supporting gas distribution system of Gazprom OJSC
Goldobina Elena Vladimirovna	Deputy head of a section of the Department of monitoring of the activities of the organizations supporting gas distribution system of Gazprom OJSC
Ishutin Rafael Vladimirovich	Chairman of the Internal Audit Commission "Mosenergo" OJSC. Head of the Department of internal audit and monitoring of financial and business activities of subsidiary companies and organizations of the Governing Committee Administration of "Gazprom" OJSC
Kovalev Vitaly Anatolyevich	Head of a section of the Division of monitoring of the activities of the organizations supporting gas distribution system of "Gazprom" OJSC in the Department of internal audit and monitoring of financial and business activities of subsidiary companies and organizations of the "Gazprom" OJCS Governing Committee Administration
Naumenko Evgeniya Sergeevna	Deputy head of the Division of corporate control in the Department of property management and corporate relations of "Gazprom" OJSC

After the annual General shareholder meeting of June 16, 2010, the company management, executive and control bodies included:

BOARD OF DIRECTORS

Full name	Position held at the moment of election to the Board of Directors of Mosenergo
Biryukov Pavel Pavlovich	First deputy of Moscow Mayor in the Government of Moscow, head of the Municipal service and facilities of Moscow
Gavrilenko Anatoly Anatolievich	General Director of "Lider" CJSC
Golubev Valery Alexandrovich	Deputy Chairman of the Governing Board of "Gazprom" OJSC
Dushko Alexandr Pavlovich	Deputy head of the economics and finance Department of Gazprom OJSC, financial director of "Gazprom energoholding" LLC
Ignatov Igor Vyacheslavovich	Deputy head of the Department of Property of Moscow
Mityushkov Alexey Alexandrovich	Director General of "Gazpromenergo" LLC, Director Generalof OGK-6 OJSC "OGK-6" OJSC
Pavlova Olga Petrovna	Head of the Department of property management and corporate relations of "Gazprom" OJSC, member of the Governing Board
Seleznev Kirill Genadievich	Chairman of the Board of Directors of Mosenergo OJCS, member of the Governing Board, head of the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJCS, Director General of "Mezhregiongaz" LLC
Silkin Vladimir Nicolaevich	Deputy of Moscow Mayor in the Government of Moscow, head of the Municipal land property service of Moscow, Head of the Department of property of Moscow
Sklyarov Evgeny Viktorovich	Head of the fuel and energy Department of Moscow
Fedorov Denis Vladimirovich	Head of the Office of development of electricity sector and marketing in the electricity sector in the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJSC "Gazprom energoholding" LLC
Shulginov Nikolay Grigorievich	First Deputy to the Chairman of the Governing Board of "SO EES" OJSC
Yakovlev Vitaly Georgievich	Director General of "Mosenergo" OJSC

INTERNAL AUDIT COMMISSION

Full name	Position held at the moment of election to Internal Audit Commission of Mosenergo
Arkhipov Dmitry Alexandrovich	First Deputy to the Chief of Stuff of the Governing Board of "Gazprom" OJSC
Beloborodov Andrey Victorovich	Deputy head of the Department – head of the organizational Division of the Department of internal audit of the Governing Board Administration of "Gazprom" OJSC
Goldobina Elena Vladimirovna	Deputy head of the control section of the internal audit methodology Division of the Department of internal audit of the Governing Board Administration of "Gazprom" OJSC
Zemlyanoy Evgeny Nikolaevich	Head of the section of marketing in the electricity sector of the Office of development of electricity sector and marketing in the electricity sector in the Department of marketing and processing of gas and other liquid carbohydrates of "Gazprom" OJSC

Full name	Position held at the moment of election to Internal Audit Commission of Mosenergo
Kovalev Vitaly Anatolyevich	Deputy head of the Office – head of the section for interaction with auditing commissions and internal audit groups of the Department of internal audit of the Governing Board Administration of "Gazprom" OJSC

Before adoption by the Board of Directors of the resolution of May 31, 2010 (minutes № 16), the Governing Board of the company included:

Full name	Position, held at the moment of election to Internal Audit Commission of Mosenergo
Andreeva Elena Victorovna	Deputy General Director of "Mosenergo" OJSC for sales
Antonova Svetlana Vladimirovna	Deputy General Director of "Mosenergo" OJSC for legal issues
Barshak Dmitry Alexandrovich	Director of TPP-21 (TETs-23) – affiliate of "Mosenergo" OJSC
Galas Ivan Vasilyevich	Director of TPP-20 (TETs-23) – affiliate of "Mosenergo" OJSC
Dmitriev Artem Igorevich	Deputy General Director of "Mosenergo" OJSC for procurement
Zroychikov Nicolay Alexeevich	Director of TPP-23 (TETs-23) – affiliate of "Mosenergo" OJSC
Ivannikov Alexandr Sergeevich	Deputy General Director of "Mosenergo" OJSC for budgeting and finance
Sergeev Vladimir Valentinovich	First Deputy General Director of "Mosenergo" OJSC, Chief Engineer
Tulsky Vasily Yuryevich	Head of the investment office of "Mosenergo" OJSC
Tsaregorodtseva Anna Sergeevna	Deputy General Director of "Mosenergo" OJSC, managing director
Yakovlev Vitaly Georgievich	Chairman of the Governing Board of "Mosenergo" OJSC, Director General of "Mosenergo" OJSC

After adoption by the Board of Directors of the resolution of May 31, 2010 (minutes № 16), the Governing Board of the company included:

Full name	Position, held at the moment of election to Internal Audit Commission of Mosenergo
Andreeva Elena Victorovna	Deputy General Director of "Mosenergo" OJSC for sales
Antonova Svetlana Vladimirovna	Deputy General Director of "Mosenergo" OJSC for legal issues
Galas Ivan Vasilyevich	Director of TPP-20 (TETs-23) – affiliate of "Mosenergo" OJSC
Zroychikov Nicolay Alexeevich	Director of TPP-23 (TETs-23) – affiliate of "Mosenergo" OJSC
Sergeev Vladimir Valentinovich	First Deputy General Director of "Mosenergo" OJSC, Chief Engineer
Tulsky Vasily Yuryevich	Head of the investment office of "Mosenergo" OJSC
Khodursky Mikhail Leonidovich	Deputy General Director of "Mosenergo" OJSC for finance
Tsaregorodtseva Anna Sergeevna	Deputy General Director of "Mosenergo" OJSC, managing director
Yakovlev Vitaly Georgievich	Chairman of the Governing Board of "Mosenergo" OJSC, Director General of "Mosenergo" OJSC

II. ESSENTIAL ASPECTS OF ACCOUNTING POLICY

Accounting in the Company is based on the following accounting policy.

1. Basis of preparation

The accounting in the company is based on the accounting rules standards presently adopted in the Russian Federation, in particular on the Federal Law №129-FZ, "On accounting" of November 21, 1996, Provisions for accounting and financial reporting in the Russian Federation approved by the decree №34 of the Ministry of Finance of the Russian Federation of July 29, 1998, as well as other applicable regulations constituting the regulatory framework of accounting and financial reporting for organizations in the Russian Federation.

The accounting policy of the Company was approved by the Company decree №594 of December 18, 2009. The policy is essentially consistent with the accounting policy of "Gazprom" OJSC and its subsidiaries, as approved by the "Gazprom" OJSC decree №415 of December 29, 2009.

The assets, liabilities and commercial operations are valuated in the national currency of the Russian Federation – roubles.

Assets and liabilities are assessed in the financial statements per actual expenses incurred for their acquisition. The exceptions are as follows:
- property, plant and equipment;
- financial investments, for which current market price can be established;
- assets, for which impairment reserves are created according to the established procedure.

The company does not issue consolidated accounting reports, wherefore it does not apply the "Information on segments" part of the "Provisions for accounting and financial reporting" (PBU 12/00) and does not disclose information about reporting segments in its reports.

2. Assets and liabilities in foreign currency

In accounting the commercial operations expressed in foreign currency (including the transactions payable in roubles), the exchange rate of the currency in question to rouble established by the Central Bank of the Russian Federation as of the date of transaction is used. The monetary assets in foreign currency in the form of cash and foreign currency accounts in banks, financial investments into short term securities and accounts payable and receivable, including credits and loans (excepting received cash, advance payments made and prepayments) are reflected in the financial statements as amounts, calculated based on the official exchange rates as of December 31, 2010. The exchange rates at this date were as follows: 30.4769 roubles for 1 US dollar (30.2442 roubles as of December 31, 2009), 40.3331 roubles for 1 euro (43.3883 roubles as of December 31, 2009).

The currency translation differences accumulated over the year (inclusively as of the reporting date) in the operations of conversion of the cost of assets and liabilities expressed in foreign currencies and payable in the foreign currencies or roubles are recognized as financial results or other profits or expenses and are shown in the report separately.

3. Short term and long term assets and liabilities

The financial investments as well as accounts payable and receivable including loans and borrowings are recognized on the balance sheet as short term assets and liabilities if the period of their circulation (maturity) does not exceed 12 months after the reporting date. Other such assets and liabilities are recognized as long term assets and liabilities.

If assets and liabilities are classified as long-term in the beginning of the reporting period, but in the course of the reporting period it becomes certain that the accounts payable or receivable are to be repaid, such long term assets and liabilities are reclassified into short-term.

4. Property, plant and equipment

Property, plant and equipment include the assets compliant with the requirements “PP&E accounting” of the Provisions for accounting and financial reporting (PBU 6/01) approved by the decree № 26 of the RF Ministry of Finance of March 30, 2001, properly recognized for accounting from the moment of commissioning and the commissioned real estate object that are recognized among property, plant and equipment only after submission of the documentation for state registration of property rights.

Revaluation

Revaluation of property, plant and equipment is performed regularly as prescribed by the Law based on the orders of the CEO in order to maintain consistency of the recognized cost of the property, plant and equipment with the current market cost. The results of revaluation of the property, plant and equipment as of the first day of the reporting year are to be separately reflected in the financial reporting documents. The results of revaluation are not included into the accounting for the previous reporting year and are adopted in the accounting balance sheets as of the beginning of the current year.

The property, plant and equipment acquired before 2009 are recognized on the balance sheets at the reinstatement cost as of the 1st of January 2009 less depreciation. The property, plant and equipment acquired after the 1st of January 2009 are recognized at the original cost amortized over the entire period of their operation.

Amortization

Amortization of the property, plant and equipment acquired before the 1st of January 2002 is performed according to the unified standards of amortization expenses approved by the Decree № 1072 of the USSR Council of Ministers of 22.10.1990 “On the unified standards of amortization expenses allocated for complete restoration of the property, plant and equipment of the USSR industries”, whereas amortization of the property, plant and equipment acquired after the 1st of January 2002 - according to the standards calculated based on the useful lifetime as determined by the Company. Classification of the property, plant and equipment included into amortization groups approved by the Decree №1 of the Government of the Russian Federation of 01.01.2002 is used as one of the sources of information about the useful lifetimes of various assets. The useful lifetime periods adopted by the company for major groups of assets are summarized in the table below:

Useful lifetimes of the assets recognized on the balance sheets, years		
	Before January 1, 2002	after January 1, 2002
Buildings	55 years and more	20 years and more
Structures	8-50 years	5-30 years
Machinery and equipment	10-30 years	2-30 years
Transport vehicles and other PP&E	5-50 years	3-30 years
Social infrastructure facilities	5-50 years	5-50 years

Amortization of property, plant and equipment is accrued linearly.

The following assets are not amortized:

- land plots and land use facilities;
- land improvement facilities and other similar objects acquired before January 1, 2006;
- residential property acquired before January 1, 2006 (except the objects used for rendering appropriate services, profits from which are recognized as results of ordinary activities or as other profits);
- State-owned social infrastructure facilities;
- fully amortized facilities not derecognized from the balance sheets.

Rent

When property, plant and equipment is received under leasing agreement, such facilities are accounted beyond balance (according to the agreement). The leased property is recognized beyond balance in the amount of the lease payments.

Rented property plant and equipment, with the exception of land plots, are recognized beyond balance at the contractual cost less VAT. Leased land plots and the plots received for unlimited use are recognized at cadastral value. In case if the leasing agreement (including room rental agreements) does not specify the cost of the rented (leased) property, the said property is recognized beyond balance in the amount, estimated by the Company.

The property, plant and equipment that was leased out, transferred for conservation or accepted for operation while undergoing the state registration are recognized in an appendix to the accounting balance at the reinstatement cost.

Other

The facilities recognizable as property plant and equipment at the cost of no more than 20 thousand rubles (inclusively) per unit are recognized among production inventories. In order to ensure safekeeping of these facility during operation and production activities, their circulation is being specially monitored.

The objects of state social infrastructure are also recognized on the balance sheets of the Company. These facilities were received by the Company during privatization of the Russian power industry without transfer of the property rights and, according to the routine practice of that period, accepted for accounting with creation of the social fund in the amount of the residual cost of these facilities. As these facilities are being transferred to the municipal bodies (or are otherwise derecognized), their residual cost is deducted from the above mentioned fund. Recognition of the state-owned social infrastructure facilities among the property, plant and equipment of the Company is a deviation from the current rules and standards, however, in the opinion of the Company management this approach ensures credible reflection of the property status of the Company since these facilities are actually used as functionally intended and the Company is responsible for maintaining them.

5. Ongoing construction

Real estate objects are recognized among incomplete construction if their construction is finished and they are commissioned, but the documentation for registration of property rights for them was not submitted to the Unified state registry.

The objects not requiring assembly and available at the warehouses are recognized among the equipment for installation.

6. Financial investments

Financial investments are assessed in the accounting documents per actual expenses incurred for their acquisition.

Investment into listed securities, market price of which is properly determined by the organizer of the trade are reassessed at current market price as of the end of the reporting year. The difference between the price of such securities at the current reporting date and their previous price is recognized as other profits and losses.

The financial investments, for which current market price is not determined are reflected on the balance sheets in the end of the reporting year at their accounting (balance) price less the reserve for impairment of the financial investments created for the assets for which at the reporting date there are conditions for substantial persistent depreciation. The reserve for impairment of financial investments is created once a year based on the results of stocktaking as of the 31st of December of the reporting year. In order to define the amount of the reserve, the Company based on the available information determines the estimated cost of the financial investments showing the evidence of persistent depreciation. The reserve for impairment of financial investments is then created in the amount of excess of the accounting (balance) cost of the liability over the estimated cost. Total amount of the established reserve is recognized as other expenses.

The securities (except individually identified securities including promissory notes and certificates of deposit) the markep price of which is not determined are reflected in the accounting at withdrawal per their types based on FIFO principle.

Other financial investments including individually identified securities (promissory notes) the market price of which is not determined are reflected in the accounting at withdrawal at the original cost of each unit.

Revenues and expenses in the operations with financial investments are recognized among other incomes and expenses.

According to the PBU 3/2006 "Accounting of the assets and liabilities whose cost is expressed in foreign currencies", long term securities (except shares) whose cost is expressed in a foreign currency are to be recalculated for the date of transaction in the foreign currency, as well as for the reporting date.

7. Inventory

Materials are initially assessed for accounting purposes in the amount of the actual cost of their acquisition. Inventories of the materials, the market price of which at the end of the year proved lower than the actual expenses for their procurement due to persistent (long term) decrease of the prices that occurred during the reporting year, and which are used to produce the products, current market price of which at the reporting date turned out to be lower than the actual prime cost, are accounted at the market price.

Assessment of the inventories during their withdrawal is performed with the aid of average prime cost method.

The goods procured by the affiliates of the Company are recognized on the "Goods" account as follows:

- in the retail and foodservice affiliates – at the retail (selling) prices;
- in the wholesale trade and other affiliates – at the buying prices (cost of acquisition).

The objects attributable to property, plant and equipment with the acquisition cost of no more than 20 thousand roubles (inclusively) per unit, including the items (housewares and paraphernalia) that are not consumed immediately in the course of production but serve for a period not exceeding 12 months and are amortized instantaneously, are also accounted among the inventory.

Special tools, instruments and equipment (special hardware) and special clothing are also accounted as inventory, regardless of their useful lifetime.

The cost of special tools, instruments and equipment (special hardware) is amortized linearly based on the useful lifetime of these objects.

Special clothing, useful life of which according to the established norms exceeds 12 months is amortized linearly based on the useful lifetime of the clothing, footwear or other means of individual protection.

8. Production costs, unfinished and finished products

Unfinished products are assessed at their actual cost of production.

Finished products are recognized on the balance sheets at the actual production cost including the expenses associated with the use of property, plant and equipment, raw materials, other materials, fuel, energy, labor and other resources for production of the products.

Transportation expenses included into the selling expenses are amortized proportionally to the cost (amount) of goods less their unsold residue.

9. Future period expenses

Future period expenses are amortized evenly throughout the period they are related to. The duration of the period is determined when the future period expenses are accepted for accounting.

The software that is expected to be expensed in more than 12 months from the reporting date is recognized among non-current assets.

10. Receivables from buyers and customers

The receivables from the buyers and customers are determined based on the prices established by the agreements between the Company and the buyers (customers) taking into account all the discounts offered by the Company and VAT.

The debts of the buyers and customers that were not repaid within the timeframe prescribed by the contractual agreements and not covered by appropriate guarantees, surety, collateral or otherwise are recognized net of the accrued reserve for doubtful debts. This reserve is a conservative estimate by the Company of the part of the receivables that are likely not to be repaid. The accrued reserves for doubtful debt are recognized as other expenses.

The debts that cannot realistically be expected to be collected are derecognized from the balance as they are acknowledged to be such, with subsequent accounting on the off-balance account for 5 years.

11. Monetary assets

According to the PBU 3/2006 "Accounting of assets and liabilities, cost of which is expressed in foreign currencies", the information about cash flows in the form of foreign currency for the Cash Flow statement are to be recalculated based on the exchange rate established by the Central Bank of the Russian Federation as of the reporting date.

12. Charter, additional and reserve capital

The charter capital is reflected in the amount of the nominal price of the ordinary shares purchased by the shareholders. The size of the charter capital is consistent with the amount established by the company statute.

According to the legislation and the Statute, the Company creates a reserve capital in the amount of 5% of the Charter capital. The amount of the annual allocations into the reserve fund is determined by the decision of the General meeting of shareholders, but can be no less than 5% of the net profit of the Company.

The additional capital includes the increase of the cost of property, plant and equipment during revaluation, share premium obtained due to disposal of the Company shares at the price in excess of their nominal price, property received at no expense up to 1999, used accumulation fund obtained as a result of commissioning of property, plant and equipment funded from the Company profits.

14. Credits and loans received

Additional expenses incurred due to received loans and credits obtained against the investment assets are included into the cost of the latter according to the requirements of PBU 15/01.

Additional expenses incurred due to received loans and credits obtained against the current assets are included into other expenses so far as they are incurred.

Additional expenses incurred due to received loans and credits obtained against the current assets that were partly used for investment purposes are included into the cost of the latter in an appropriate proportion.

The interest paid by the Company on the loans and borrowings used for financing of capital construction (including renovation and upgrades) are included into the cost of incomplete construction as they are accrued.

Credits and borrowings reflected in the accounting as long-term credits and borrowings that are expected to be repaid in the reporting year are reflected in the reports as short term credits and borrowings.

15. Provisions for recognizing interest and discount on debenture bonds

The expenses (interest or discount) on the debenture bonds are accrued according to the decision about issuance of the securities and are reflected among other expenses in the periods when such payments are made.

The Company does not account upfront the amounts to be paid to the lender per sold debenture bonds as future period expenses.

16. Reserves for future expenses and for business contingencies

The Company creates reserves for future expenses and for contingent fact of its business activities. Total amount of the established reserve for business contingencies is recognized as other expenses.

17. Deferred taxes

The Company reflects in its accounting and financial reporting deferred tax assets and deferred tax liabilities, recurring tax assets and recurring tax liabilities, i.e. the amounts that can affect the current profit tax during the current and/or subsequent reporting periods.

The amounts of the deferred tax assets and liabilities are reflected in the accounting documents in expanded form as a part of non-current assets (line 145 "Deferred tax assets" and of long-term liabilities (line 515 "Deferred tax liabilities").

The amounts of profit tax overpaid to budget, which are classified as deferred tax assets according to the PBU 18/02 are reflected on the balance sheets in the line 240 "Accounts receivable" since economically they represent transaction sums rather than deferred tax assets.

18. Recognition of revenues

Revenues from products sold and services rendered are recognized as the products are shipped (or services rendered) to the customers and payment documents are submitted by them. The revenues are reflected in the accounting documents net of the value added tax, excise duties and other similar compulsory payments.

The following is recognized among other income:

- income from participation in other organizations (including dividends) – as the income is announced;
- earnings from property, plant and equipment items or other assets other than monetary assets (except foreign currency), products and goods sold;
- interest received for the use by a bank of the monetary assets on the organization's account in the bank;
- interest accrued on the procured interest-bearing promissory notes of the third parties – according to the stipulation of interest in the note when the note is presented for payment.

19. Changes of the accounting policy

Changes in the accounting policy of the Company by 2010

Corrections of errors in the accounting reports of the Company for 2010 are made according to the Provisions for Accounting "Correcting errors in the accounting documentation" (PBU 22/2010). Substantial errors of the reporting year (2010) identified by the Company after the end of the reporting year but prior to the date of approval of the accounting documentation for 2010 as prescribed by the Law, are corrected by means of the final entries for 2010. Substantial errors of the previous years (before 01.01.2010) identified by the Company prior to the date of approval of the accounting documentation for 2010 as prescribed by the Law, are corrected by means of entries for 2010. The comparative accounting parameters are recalculated for the previous year as if the error of the previous reporting year was never made. If a substantial error is identified in the reporting year or previous years after the financial accounting is signed and submitted to the users (besides the owners) and to the owners of the Company but before approval of the reporting as prescribed by the Law, the Company submits to the users (and owners) revised versions of the reports. The revised reports disclose information about replacement of the initially presented reports and the basis for revision.

Due to abolishment of the Chapter 24 "Unified social tax" of the Tax Code, proper subaccounts were introduced into the working chart of accounts for the payments to the Social insurance fund, Pension fund, Federal and Territorial funds of compulsory medical certification.

The company changed its accounting policy in relation to the incomes and expenses associated with accrual of doubtful debt reserves. Previously, the reserves created in the previous reporting period and unused in the current period were added to the financial results of the Group. Starting from the current reporting period, such incomes and expenses are presented in the financial reporting in the collapsed form with the exception of the amount of the reserve recovered during the reporting period after collection of the debt for which the reserve was created.

Changes in the accounting policy of the Company by 2011

Starting from the annual financial statements of 2011, the RF Ministry of Finance decree of 02.07.2010 № 66n "On the forms of financial reporting of organizations" becomes applicable. Due to the differences in the form of presentation of the accounting forms according to this decree and the forms of financial accounting for 2010 (according to the RF Ministry of Finance decree of 22.07.2003 № 67n), some of the parameters for the reporting year will be presented as reference data in the accounting reports of 2011 in different lines, or will be transferred from the forms into the explanatory notes.

20. Initial and reference data

Some of the parameters from the column 3 "as of the beginning of the reporting year" and of the line 4 "for similar period of the previous year" of the profit and loss statement are formed by means of data correction due to the following circumstances:

- based on the report of the independent valuator, the Company updated the revaluated cost of some property, plant and equipment as of the January 1, 2009, which resulted in downward changes of the reference data of the accounting balance of the Company for January 1, 2010;
- in order to insure comparability of the accounting balance of the Company, the reference data from the line 240 "accounts payable" was reclassified to the line 270 "Other current assets" in the amount of shortages and losses due to impairment of assets in the amount of 46,026 thousand roubles;
- due to similar circumstances, reference information from the line 660 "Other short term assets" was reclassified to the line 650 "Reserves for future expenses" in the amount of the 6,839 thousand roubles of reserves for future expenses;
- due to a change of the accounting policy in relation to recognition of profits and expenses associated with accrual of doubtful debt reserves, the information from the line 090 "Other incomes"and line 100 "Other expenses" of the profit and loss statements was corrected downwards;
- due to a change of the accounting policy in relation to commercial expenses the information from the line 030 "commercial expenses" and line 020 "Prime cost of the goods and services sold" of the profit and loss statements was corrected for the amount of the expenses directly associated with organization/support of sales of heat and electricity on the market equal to 212,515 thousand roubles;
- other individually insignificant circumstances.

Correction of the balance sheet data is presented as follows (in thousand roubles):

	Line code	Sum before adjustment as of December 31 2009	Adjustment, roubles	Sum with adjustment as of January 01 2010
Property, plant and equipment	120	132,570,291	(941,600)	131,628,691
TOTAL FOR THE SECTION I	190	149,601,334	(941,600)	148,659,734
Accounts payable (payments for which are expected within 12 month after the reporting date)	240	31,974,470	(46,026)	31,928,444
Other current assets	270	291,929	46,026	337,955
TOTAL FOR THE SECTION II	290	57,497,034	-	57,497,034
TOTAL ASSETS	300	207,098,368	(941,600)	206,156,768
Premium on capital stock	420	126,283,308	(793,341)	125,489,967
Undistributed profit (uncovered loss)	470	2,221,113	(148,259)	2,072,854
TOTAL FOR THE SECTION III	490	168,177,137	(941,600)	167,235,537
Other long term liabilities	520	-	383,988	383,988
TOTAL FOR THE SECTION IV	590	21,846,115	383,988	22,230,103
Payables	620	14,588,755	(383,988)	14,204,767
Reserves for the upcoming expenses	650	-	6,839	6,839
Other short term liabilities	660	6,839	(6,839)	-
TOTAL FOR THE SECTION V	690	17,075,116	(383,988)	16,691,128
TOTAL LIABILITIES	700	207,098,368	(941,600)	206,156,768

Correction of the profit and loss statement data is presented as follows (in thousand roubles):

	Line code	Sum before adjustment as of December 31 2009	Adjustment, roubles	Sum with adjustment as of January 01 2010
Prime cost of products, goods, labor and services sold	020	(105,137,953)	141,112	(104,996,841)
Net earnings	029	7,089,485	141,112	7,230,597
Commercial costs	030	(75,023)	(212,515)	(287,538)
Profit from sales	050	7,014,462	(71,403)	6,943,059
Other revenues	090	7,495,044	(1,445,606)	6,049,438
Other expenses	100	(6,563,065)	1,517,009	(5,046,056)
Net profit (lodd) for the reporting period	190	4,508,990	-	4,508,990

The parameters as of January 1, 2010 in the attachment to the balance sheets and explanatory notes are presented taken into account the corrections and adjustments disclosed in the section II of the paragraph 20 "Initial and comparative data".

III. DISCLOSURE OF ESSENTIAL PARAMETERS

1. Property, plant and equipment

Revaluation

The company made an assessment of the current (reinstatement) costs of major groups of its property, plant and equipment s of January 1, 2010 in order to identify possible changes of the cost compared to January 1, 2009. The following indices were used in the assessment:

Buildings and structures – price index of the suppliers for the construction industry in all areas of commercial acitivites (installation and construction work), generation, transmission and distribution of electricity, gas, steam and hot water;

Equipment and machinery - price indeces of suppliers by the industry;

Transportation - price indeces of suppliers by the industry;

Other – consumer price indices for non-food merchandise.

As a result, no substantial changes of the current (reinstatement) costs were identified in any of the groups of property, plant and equipment. Based on these calculations, the Company decided not to reevaluate the property, plant and equipment as of January 1, 2010.

Rent

In 2010, the Company rented 375,241 thousand roubles worth of property, plant and equipment (as compared to 387,969 thousand roubles in 2009) and returned 5,403 thousand roubles worth of facilities rented earlier to the owners (0 roubles in 2009). In 2009 and 2010 the company was not buying out any equipment due to expiration of the leaseing agreements.

Starting from January 1, 2010, the Company has to make 506,162 roubles of lease payments for leased property until the end of the lease agreements, including:
- 336,796 roubles paid in 2010,
- 178,129 roubles to be paid in 2011.

In the line 910 "Leased property, plant and equipment of the statement of assets registered on the off-balance account" cadastral value of 1,056.97 hectars of rented land plots in the amount of 42,249,077 thousand roubles is also reflected as of December 31, 2010 (as compared to 990.6 hectars 42,308,340 thousand roubles as of January 1, 2010).

The property, plant and equipment that was leased out, transferred for conservation or is undergoing the state registration is reflected in an appendix to the accounting balance at the reinstatement cost.

Registration of property rights

Balance cost of the property, plant and equipment, property rights for which are subject to mandatory state certification is as follows (in thousand roubles):

	As of January 1, 2010	As of December 31, 2010
Property, plant and equipment, property rights for which are registered	68,929,369	65,615,871
Property, plant and equipment, property rights for which are not registered	11,055,922	10,488,039
TOTAL	79,985,291	76,103,910

Property, plant and equipment, property rights for which are not registered as of December 31, 2010 includes the facilities commissioned for operation and undergoing registration process for the total of 4,022.960 thousand roubles (as compared to 7,234,354 thousand roubles as of January 1, 2010). The property, plant and equipment, property rights for which are not registered also include facilities, obtained by the Company free of charge during the period of 1992 - 1997 (and before), mostly consisting of district heating networks with the total length of 154,904 kilometers and total cost of 3,149,810 thousand roubles (3,321,155 thousand roubles as of January 1, 2010). The company is undertaking in a planned manner the activities to register property rights for such equipment acquired by succession during reorganization.

As of December 31, 2009 and December 31, 2010, the Company did not have any property, plant and equipment in pawn or with otherwise impaired proprietary rights.

Social infrastructure facilities

The balance cost of the social infrastructure facilities as of December 31, 2010 amounts to 101,146 thousand roubles (140,111 thousand roules as of January 1, 2010). In 2010, the Company continued the efforts to transfer the social infrastructure facilities to municipal organizations. Thus, over 100 items of the property, plant and equipment having zero balance cost was transferred in 2010 (226,833 roubles in 2009).

Incomplete construction

The line 130 "Incomplete construction" of the balance sheets reflects the following (in thousand roubles):

	As of December 31, 2009	As of December 31, 2010
Incomplete construction	14,630,742	13,369,112
Real estate objects are recognized among incomplete construction if their construction is finished and they are commissioned, but the documentation for registration of property rights for them was not submitted to the Unified state registry	170,660	170,660
Equipment for installation	1,846,806	1,987,107
TOTAL	16,477,548	15,356,219

2. Long-term financial investments

The financial investment presented in the line 140 "Long term financial investments" of the the balance sheets can be detailed out as follows (in thousand roubles):

	As of December 31, 2009 Balance cost, including reserve	Received	Retired Reserves accrued	As of December 31, 2010 Balance cost, including reserve
Financial investments, for which current market price is not determined				
Investments into subsidiaries	51,352	-	(49,936)	1,416
Including "TEK Mosenergo"	50,000	-	(50,000)	-
Investments into dependent companies	2,233	-	(1,713)	520
Other investments	5,035	-	-	5,035
Debenture bonds	9,378	-	(1,161)	8,217
Financial investments, for which current market price is determined				
Other investments	51,333	-	(51,333)	-
Including "RusHydro" OJSC	51,333	-	(51,333)	-
TOTAL	119,331	-	(104,143)	15,188

Pursuant to the the Board of Directors decision №16 of May 31, 2010, the company disposed of 100% of shares of "TEK Mosenergo" OJSC by means of selling them on an open auction in October 2006.

Pursuant to the the Board of Directors decision №8 of December 15, 2009, the company disposed a package of shares of "RusHydro" OJSC in February 2010.

No long term financial investments were charged or pawned as of December 31, 2010 and at December 31, 2009.

Reserve for depreciation
The long term financial investments of the Company, for which evidence of persisting depreciation was identified, are presented in the balance sheets net of the accrued depreciation reserve.

Changes of reserve for groups of long term financial investments can be presented as follows (in thousand roubles):

	As of December 31, 2009	Accrued	Recovered	As of December 31, 2010
Investments into subsidiaries	1,002	-	(64)	938
Investments into dependent companies	-	1,713	-	1,713
Other investments	441	-	-	441
TOTAL	1,443	1,713	(64)	3,092

3. Inventory
The inventories are presented in the balance sheets as follows (in thousand roubles):

	As of December 31, 2009	As of December 31, 2010
Fuel	2,767,923	4,528,157
Spare parts	762,646	822,023
Construction materials	388,492	130,399
Other materials	577,552	893,934
TOTAL	4,496,613	6,374,513

The company did not create a reserve for the amount of decrease of cost of materials as of December 31, 2010 and December 31, 2009 since the inventories at these dates mostly consisted of emergency supplies.

No part of inventories were charged or pawned as of December 31 2010 and at December 31, 2009.

4. Future period expenses
The following expenses are reflected on the balance sheets as future period expense (thousand roubles):

	As of December 31, 2009		As of December 31, 2010	
	Long-term part	Short-term part	Long-term part	Short-term part
Procurement of computer software	413,449	109,082	322,450	109,560
Settlements with personnel	-	31,812	-	12,468
Life insurance, property liability	-	6,640	-	1,490
Assessment of property	-	4,209	-	39,339
Obtaining licenses for specific types of activities	-	112	2,581	72
Other	-	61,143	1,636	995
TOTAL	413,449	212,998	326,667	163,924

The long-term part of the future period expences that are expected to be written-off in more than 12 months from the reporting date is recognized within the line 150 "Other non-current assets" of the balance sheets.

5. Value added tax for the acquired tangible assets
The line 220 "Value added tax for the acquired valuables" of the balance sheets reflects the value added tax in the amount of 1,194,246 thousand roubles as of December 31 2010 compared to 1,195,816 thousand roubles as of December 31, 2009.

The line 1,168,352 "Value added tax for the acquired valuables" of the balance sheets reflects the value added tax in the amount of 1,194,246 thousand roubles as of December 31, 2010 compared to 1,093,490 thousand roubles as of December 31, 2009. 192,735 thousand roubles out of them were, as of December 31, 2009 (195,305 thousand roubles as of December 31, 2009) were related to the objects, construction of which was initiated prior to January 1, 2006 and which have not been commissioned so far.

6. Accounts receivable

Long term receivables

The line 230 "Accounts receivable (payments for which are expected in more than 12 months after the reporting date)" the balance sheets can be detailed out as follows (in thousand roubles):

	As of December 31, 2009	As of December 31, 2010
Advance payments made	4,279,325	2,201,983
Advance payments for capital construction	4,279,325	2,201,983
Other debtors	31,775	22,990
Loans to the Company employees for procurement of housing	31,775	18,587
Other	-	4,403
TOTAL	4,311,100	2,224,973

Short term receivables

The line 240 "Accounts receivable" (where payments are expected within 12 months after the reporting date) of the balance sheet is expanded as follows (thousand roubles):

	As of December 31, 2009	As of December 31, 2010
Customers and clients	14,368,127	15,829,886
Advance payments made	15,182,609	15,316,569
Advance payments for capital construction	10,768,934	14,599,575
Advance payments to external suppliers and contractors	4,413,675	716,994
Other debtors	2,377,708	3,175,671
Interest on issued loans	1,723,980	2,617,802
Tax overpaid	276,406	56,144
Other	377,322	501,725
TOTAL	31,928,444	34,322,126

The arriers on the accrued interest is related to the loan issued to "Gazenergoprom Invest" CJSC and was settled by it in the fourth quarter of 2010. According to the provisions of the agreements, the borrower commits to pay the interest simultaneously with repayment of the principal. The Company management expects the interest accrued over 2011 to be repaid.

The payables from customers and clients and from other debtors are shown net of the doubtful debt provision, presented below.

The reserve for doubtful debt and other payables is a deviation from the rules of accounting and financial reporting as established by the paragraph 70 of the Provisions for accounting and financial reporting in the Russian Federation issued by the RF Ministry of finance Decree №34n of June 29, 1998, according to which an organization is entitled to create reserves for doubtful debts related to settlements with external organizations and individuals for supplied products, goods and rendered services. In the opinion of the Company management, this deviation from the rules allows more accurately reflecting financial status and results of activities of the company.

Reserve for doubtful debt

Changes of reserve for doubful debt classified by the debt type can be presented as follows (in thousand roubles):

	As of December 31, 2009	Accrued	Used	Recov-ered	As of December 31, 2010
Reserve for long term receivables					
Other receivables	31,179	-	(31,179)	-	-
Reserve accrued for for short term receivables					
Customers and clients	1,311,747	585,808	(615,723)	(55,742)	1,226,090
Other receivables	240,290	1,474	(132,197)	(8)	109,559
TOTAL	1,583,216	587,282	(779,099)	(55,750)	1,335,649

7. Short-term financial investments

The financial investment presented in the line 250 "Short term financial investments" of the the balance sheets can be detailed out as follows (in thousand roubles):

	As of December 31, 2009	Appeared	Matured	As of December 31, 2010
Financial investments, for which current market price is not determined				
Loan given	12,768,875	-	12,768,875	-
Debenture bonds	-	1,161		1,161
Deposits	-	52,284,700	27,755,900	24,528,800
Acquired rights of claim				
Acquired rights of claim	40,712	644,092	635,186	49,618
TOTAL	12,809,587	52,929,953	41,159,961	24,579,579

Reserve for depreciation of short term financial investments was not created because of lack of evidence of persisting decrease of their price.

No short term financial investments were charged or pawned as of December 31, 2010 and at December 31, 2009.

8. Other current assets

The line 270 "Other current assets of the balance sheets for December 31, 2010 reflects the amount of VAT to the advance payments received against delivery of goods (services) and not settled by the reporting date in the amount of 404,466 thousand roubles (291,929 thousand roubles as of December 31, 2009) and the amount of shortages and deficiencies identified during inventory-taking in the amount of 71,639 thousand roubles (46,026 thousand roubles as of December 31, 2009).

9. Capital and reserves

Charter capital

As of December 31, 2010, the total number of declared ordinary shares was 39,749,359,700 (39,749,359,700 as of December 31, 2009) with the nominal price of 1 rouble per share. All the issued ordinary shares were fully paid for, except for own shares bought out from the shareholders. No changes of the charter capital occurred in 2010.

As of December 31, 2010, the ordinary shares of the Company were distributed as follows:

	Number, shares	Nominal price, thousand roubles
Legal entities	38,207,255,318	38,207,255
"Gazprom energoholding" LLC	21,253,338,464	21,253,338
Department of Property of Moscow	10,512,012,316	10,512,012
Other legal entities	6,441,904,538	6,441,905
Physical persons	1,401,874,931	1,401,875
Own shares bought out from shareholders.	140,229,451	140,230
TOTAL	39,749,359,700	39,749,360

Own shares bought out from shareholders

The figure for the own shares bought out from shareholders in 2008 reflects the cost of shares owned by the Company. As of December 31, 2010, the Company owned 140,229,451 shares for the total of 870,825 thousand roubles (140,229,451 shares for the total of 870,825 thousand roubles on December 31, 2010).

Dividends

In June 2009 the general meeting of shareholders decided not to pay dividends on ordinary shares of the Company for 2008.

In June 2010 the general meeting of shareholders decided not to pay dividends on ordinary shares of the Company for 2009 in the amount of 0.01262335 roubles per one inscribed ordinary share to the total of 500 000 thousand roubles.

Premium on capital stock

The premium on capital stockas of December 31, 2010 amounts to 125,333,433 thousand roubles (125,489,967 thousand roules as of January 1, 2010) and can be decomposed as follows:

	As of January 1, 2010	As of December 31, 2010
Revaluation surplus on property, plant and equipment	71,323,541	71,167,007
Issuance income	49,220,000	49,220,000
Other	4,946,426	4,946,426
TOTAL	125,489,967	125,333,433

Decrease of the premium on capital stock in 2010 by the total of 156,534 thousand roubles (413,226 thousand roubles in 2009) is associated with retirement of objects of property, plant and equipment and transfer of the revaluation surplus associated with these objects into undistributed profit of the Company.

Reserve capital

The Company Statute provides for establishing the reserve fund in the amount of 5% of the charter capital of the Company. Accordint to the decision of the annual General shareholder meeting of June 15, 2010, the net profit of 2009 in the amount of 225,450 thousand roubles was allocated for creation of the reserve fund (68,586 thousand roubles in 2008). As of December 31, 2010, the reserve fund amounted to 1,019,631 thousand roubles or 2.57% (794,181 thousand roubles or 2.00% as of December 31, 2009) from the total of the charter capital.

10. Long term liabilities

The line 520 "Other long term liabilities" of the balance sheets as of December 31, 2010 amounts to 814,960 thousand roubles and reflects the unpaid balance on received loans maturing in more than 12 months after the reporting date. 479,257 thousand roubles out of them are the advance payments for accession of capacities.

11. Credits and loans

Credits

The credit liabilities of the Company are presented in the balance sheets as follows (in thousand roubles):

	Maturity period	Currency of the credit	As of December 31, 2009	As of December 31, 2010
Long term credits			3,287,732	2,988,822
Credit Agricol CIB Deutschland	2025	Euro	133,649	127,742
Credit Agricol CIB Deutschland	2014	Euro	1,083,948	844,557
BNP "Paribas"	2023	Euro	2,070,135	2,016,523
Short term credits (including short term part of long term credits)			3,468	365,844
Credit Agricol CIB Deutschland	2011	Euro	3,468	171,161
BNP "Paribas"	2011	Euro	-	194,683

Accounts payable associated with loans and borrowings are accounted and reflected in the financial reporting taking into account the interest payable by the end of the reporting period.

In 2010, the Company received credits for the total of 231,127 thousand roubles (8,767,672 thousand roubles in 2009); the interest accrued on the credits amounted to 136,025 thousand roubles (1,616,655 roubles in 2009). No credits were repaid during 2010 (18,711,271 thousand roubles in 2009). Total interest accrued on the credits amounted to 72,402 thousand roubles (1,702,252 thousand roubles in 2009).

Net effect from recalculation of operations on the credits and borrowings nominated in the foreign currency amounted to 231,284 thousand roubles (21,730 thousand roubles in 2009). Additional expenses associated with obtaining the credits amounted to 109,545 thousand roubles in 2010 (1,314,016 thousand roubles in 2009).

The interest rates on long term credits in 2010 ranged from 2.9% to 7.2% (from 2.74% to 24.5% in 2009). The interest rates on short term credits in 2010 ranged from 2.9% to 7.2% (from 13.7% to 18.00% in 2009).

The company did not have any overdue credits or borrowings as of December 31, 2010 and as of December 31, 2009.

Borrowings

Borrowings of the Company are presented in the balance sheets as follows (in thousand roubles):

	Maturity period	Currency of the borrowing	As of December 31, 2009	As of December 31, 2010
Long term borrowings			14,412,243	9,782,914
Bonded loan (series 03)	2014	roubles	5,000,000	5,000,000
Bonded loan (series 02)	2016	roubles	4,782,914	4,782,914
Bonded loan (series 01)	2011	roubles	4,629,329	-
Short term borrowings (including short term part of long term borrowings)			2,412,923	4,967,196
Bonded loan (series 01)	2011	roubles	169,640	4,800,554
Bonded loan (series 02)	2011	roubles	126,324	127,327
Bonded loan (series 03)	2011	roubles	37,911	39,315
Exchange-traded bonds	2010	roubles	2,079,048	-

In 2010, the Company made no borrowings (in 2009 a borrowing was made for 5,000,000 thousand roubles); 2,000,000 thousand roubles of borrowings were repaid (no borrowings were repaid in 2009). In 2010, the interest accrued on the borrowings amounted to 1,606,433 thousand roubles (899,286 thousand roubles in 2009); the amount of interest repaid on the borrowings was 1,681,488 thousand roubles (713,062 roubles in 2009).

There were no additional expenses associated with obtaining the credits in 2010 (39,139 thousand roubles in 2009).

The long term borrowings maturing within one year from the reporting date that were reclassified to short term borrowings amounted to 4,629,329 thousand roubles as of December 31, 2010.

The interest rates on the borrowings in 2010 ranged from 7.65% to 12.50% (from 7.54% to 12.5% in 2009).

The company did not have any overdue borrowings as of December 31, 2010 and as of December 31, 2009.

12. Payables

The accounts payable presented in the line 625 "Other creditors" of the the balance sheets can be detailed out as follows (in thousand roubles):

	As of December 31, 2009	As of December 31, 2010
Advance payments received	1,745,562	2,021,164
Other requirements	1,832,605	713,938
VAT from the advance payments made	656,256	44,836
Debt to the Department of Property of Moscow related to the funds received for shared construction purposes	523,461	523,461
Actional debt per enforcement orders	498,014	63
Debts secured by own promissory notes	95,000	-
Other	59,874	145,578
TOTAL	3,578,167	2,735,102

13. Taxes

According to the Provisions for accounting and financial reporting "Accounting for profit tax" (PBU 18/02) the Company reflected in the accounting documents and in the Profit and Loss statement for 2010 the following parameters (thousand roubles):

№	Pate number in the profit and loss statement.	Item/parameter title	For 2010	For 2009
1	140	Profit before tax	10,575,931	6,973,588
1.1		Including the income from participation in other organizations	57,185	25,194
2		Contingent expense (contingent income) on income tax (page 1 – page 1.1)x20%	2,103,749	1,389,679
2.1		Dividend tax deducted at the source of payment (line 1.1x9%)	5,147	2,267
3	200	Recurring tax liabilities (assets) (line 4 – line 6), including	840,577	1,062,323
4		Recurring tax liabilities (line 5x20%)	982,045	1,467,191
5		Persistent differences increasing taxable profit including:	4,910,227	7,335,954
5.1		Differences related to PP&E amortization;	4,202,765	5,032,055

№	Pate number in the profit and loss statement.	Item/parameter title	For 2010	For 2009
5.2		expenses unrelated to core businesses;	264,430	730,696
5.3		social expenses	260,676	940,267
5.4		differences increasing taxable profit	134,251	103,270
5.5		Non-taxable losses	41,477	715,665
5.6		In excess of the legally established limits	4,915	208,870
5.7		difference in reserves between bookkeeping and tax accounting	1,713	(394,869)
6		Recurring tax assets (line 7.1 +7.2)x20% +7.3x20%	(141,468)	(404,868)
7		Persistent differences decreasing taxable profit including :	(707,338)	(1,742,056)
7.1		Non-taxable	(101,866)	(195,053)
7.2		difference in reserves between bookkeeping and tax accounting	(491,284)	(135,605)
7.3		incomes/expenses reflected in the corrected declarations	(114,188)	(1,411,398)
8	141	Deferred tax assets (line 9x20%)	18,558	13,722
9		Temporarily deducted differences, including :	92,789	68,610
9.1		losses from assignment of receivables after due payment date	79,398	(28,559)
9.2		expenses transferred to future periods	21,148	14,296
9.3		from disposal of amortized property	(7,757)	82,873
10	142	Deferred tax liabilities (line 11x20%)	(646,797)	(1,284,028)
11		Temporary taxable differences, including :	(3,233,985)	(6,420,140)
11.1		Differences in depreciation and amortization of property, plant and equipment	(3,022,808)	(6,543,890)
11.2		in indirect expenses	16,164	(11,203)
11.3		in the reserve for doubtful debt in the bookkeeping and fiscal accounting	(226,517)	139,426
11.4		taxable difference	(2,031)	(5,428)
11.5		for procured software licenses	1,207	955
12		Taxable base for income tax (line 1 – line 5 + line 7 + line 9 +line 11)	11,637,624	6,215,956
13		Profit tax (line 2 + line2.1 + line 3 + line 8 +line 10), including:	2,321,234	(1,183,963)
	150	Current profit tax	(2,338,925)	(1,520,432)
		Profit tax for previous years	22,838	338,736
	151	Dividend tax deducted at the source of payment	(5,147)	(2,267)
14		Other expenses from profit	(179)	(10,329)
15	190	Net profit for the reporting period (line 1 – line 13 + line 14 + line 8 +line 10)	7,626,279	4,508,990

14. Expenses associated with routine activities

The prime cost of sold goods, products and services (total of the lines 020 and 030 of the Form 2) is related to the total production expenses represented in the line 760 of the section "Expenses for ordinary activities" of the Form 5 of the "Appendix to the accounting balance, as disclosed in the appropriate section of the form 5.

15. Other profits and expences

Other incomes presented in the line 90 "Other income" of the profit and loss statement of the Company can be detailed out as follows (in thousand roubles):

	For 2010		For 2009	
	Revenues	Expenses	Revenues	Expenses
Receivables sold	1,295,175	1,515,601	281,608	303,081
Movements of financial investments, including third party promissory notes	1,250,084	110,428	1,041,366	92,505
Property, plant and equipment or other tangible assets sold	681,936	196,616	3,401,926	1,343,976

	For 2010		For 2009	
	Revenues	Expenses	Revenues	Expenses
Subsidies for covering financial losses from heat supplied	450,127	-	378,179	-
Payables/Receivables expensed	393,146	2,484	5,859	12,108
Fines, overdue penalties, forefeits payments for violations of the contractual agreements	288,627	348,918	75,964	140,219
Currency exchange difference	261,488	22,002	108,385	154,059
Profits/losses of the previous years, discovered (recognized) in the reporting year	154,565	33,826	246,359	55,416
Change of assessment reserves	55,814	588,995	341,064	209,324
Surpluses identified during inventory-taking	23,016	-	17,716	-
Incomes and expenses occurred after extraordinary situations	-	-	64,802	21,110
Incomes and expenses from trust management of securities	-	-	34,450	28,127
Income from revaluation of securities	-	-	24,621	-
Social expenses	-	276,219	-	424,336
Expenses associated with obtaining credits	-	111,739	-	1,314,016
Liquidation of affiliates	-	79,108	-	26,455
Bank services	-	49,355	-	61,958
Retirement of assets without income	-	39,798		51,307
Other taxes	-	32,269	-	25,467
VAT non-refundable from the budget	-	27,723	-	68,428
Dismantling expenses	-	12,881	-	1,894
Sponsorship and charity expenses	-	1,100	-	4,581
Compensations paid due to stuff reduction	-	-	-	126,963
Legal and consultancy services	-	-	-	86,385
Other	26,813	91,844	27,139	494,341
TOTAL	4,880,791	3,540,906	6,049,438	5,046,056

Incomes and expenses associated with accrual of reserve for doubtful debts for 2009 and 2010 respectively are presented in the financial statements of the Company in detalized form for the amount of the recovered (paid) reserve.

16. Earnings per share

Base EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Base profit is equal to the net profit of the reporting year (line 190 of the profit and loss statement).

The weighted average number of ordinary shares in circulation is was calculated taking into account the shares of the Company purchased per trust management agreement and disregarding the shared bought out from the shareholders as a result of merger with "Mosenergo Holding" OJSC and registered on the ledger account of the Company as of December 31, 2009 and December 31, 2010.

	For 2010	For 2009
Net profit (undistributed) for the reporting year. thousand roubles	7,626,279	4,508,990
Weighted average number of ordinary shares in circulation over the accounting year, pcs	39,609,130,249	39,609,130,249
Earnings per share. rubles	0.1925	0.1138

The Company did not issue any additional shares in 2009 and 2010. The Company also did not have any securities convertible into additional number of ordinary shares. There were no other events associated with the increase of the number of ordinary shares. Therefore, the Company did not calculate diluted earnings per share.

17. Associated parties

As of December 31, 2008, the Company was controlled by Gazprom OJSC owning 53.47% of the ordinary shares of the Company. Other 46.53% of the ordinary shares are divided among large number of shareholders, the largest part of them being owned by the city of Moscow represented by the Department of Property of Moscow (26.45% of ordinary shares).

In April 2009, Gazprom OJSC transferred its 53.47% share in the Company to its 100% subsidiary "Gazprom elergoholding" LLC. Thus, as of December 31, 2010 the Company is controlled by "Gazprom elergoholding" LLC and is a part of Gazprom group consisting of Gazprom OJSC and all its subsidiaries.

Other associated parties of the Company in 2010 were the members of the Board of Directors, members of the Governing board and the following legal entities:

Organizational and legal form, name of the organization	Nature of association (control or significant influence)
«Energoinvest-ME» CJSV	Mosenergo OJSC has a right to control over 20% of votes attributed to shares (participating stakes, contributions) constituting charter capital of this organization
"Energo-consult" CJSV	Mosenergo OJSC has a right to control over 20% of votes attributed to shares (participating stakes, contributions) constituting charter capital of this organization

Organizational and legal form, name of the organization	Nature of association (control or significant influence)
"Joint Russian-German Enterprise SEBA ENERGO" LLC	Mosenergo OJSC has a right to control over 20% of votes attributed to shares (participating stakes, contributions) constituting charter capital of this organization
"Shatura production union for peat digging" OJSC	Mosenergo OJSC has a right to control over 20% of votes attributed to shares (participating stakes, contributions) constituting charter capital of this organization
"Central mechanical maintenance plant" LLC	Mosenergo OJSC has a right to control over 20% of votes attributed to shares (participating stakes, contributions) constituting charter capital of this organization
«Leasinginvest- ME» LLC	The organization belongs to the same group of entities as Mosenergo OJSC

In October 2010 the Company terminated its participation in "TEK Mosenergo» OJSC (please, see item 2 of the section «Disclosure of essential parameters» of the explanatory notes.

The products were sold to associated parties under normal commercial conditions at the market prices, except for the goods and services that are subject to regulation by tariff legislation.

When selling electric energy (capacity), the Company does not carry out transaction at the prices in excess of the established regulated tariffs (their limiting values) where they exist, and is acting in compliance with the Rules of the wholesale market and with the Decree of the Russian Federation Government of 26.02 2004 № 109 "On price formation for heat and electric energy in the Russian Federation".

In 2010 the company sold electricity on the «day after" market and on the "balancing market" for the amount of 35,564, 059 thousand roubles and capacity for the amount of 17,258,980 thousand roubles (15,775, 226 thousand roubles and 11,636,486 thousand roubles in 2009, respectively). Most of it was sold at the prices determined by means of competitive choise of price quotes of buyers and sellers according to the with the Decree of the Russian Federation Government of 24.10.2003 № 643 "On the rules of wholesale market of electic energy (generating capacity) for the transition period».

The products were procured from associated parties under normal commercial conditions at the market prices, except for the goods and services that are subject to regulation by tariff legislation.

The Company did not make any non-monetary settlements with the associated parties in 2009 and 2010.

The services associated with transmission of heat were procured from "Moscow heating network company» OJSC according to the tariffs established by the with the Decree of the Regional Energy Commission of Moscow of 19.12 2007 № 17.

Transactions with the organizations of Gazprom Group

In the reporting year, the Company rendered rental services, communication services and sold promissory notes to the following organizations of the Gazprom Group (thousand roubles):

Counteragent name	Proceeds from sales	
	For 2010	For 2009
"Gazprom" OJSC	35,269	20,604
"Stroytransgaz" OJSC	8,843	5,448
"Gazprombank" OJSC	7,370	208,221
"Gazprommedservis" OJSC	6,254	-
"Sochigorgaz" OJSC	6,067	-
"Gazenergoprombank" CJSC	3,012	6,919
"Promgaz" OJSC	2,159	1,556
"Gazavtomatika" OJSC	1,211	878
"Gaztelecom" CJSC	257	184
"SOGAZ-AGRO" OJSC	158	-
"TGK-1" OJSC	-	7,981
"OGK-2" OJSC	-	4,717
"OGK-6" OJSC	-	4,180
"AK Sibur" OJSC	-	3
TOTAL	70,600	260,691

In the reporting year, to the following organizations of the Gazprom Group supplied gaz, supplied products and rendered service to the Company (thousand roubles):

Counteragent name	Cost of the received goods and services	
	For 2010	For 2009
"Mosregiongaz" LLC	68,754,533	49,978,200
"Gazprom gazenergoset" OJSC	1,794,895	-
"Sogaz" OJSC	542,668	507,568
"Gazpromneft – Center" LLC	408,161	394
"Neftyanoy Dom" OJSV	209,649	62,789
"Gazenergoprombank" CJSC	207,745	-
"Gazprommedservis" LLC	62,036	15
"Gazprom energoholding" LLC	59,812	-
"Sibur Holding" OJSC	51,177	21,335

Counteragent name	Cost of the received goods and services	
	For 2010	For 2009
"Gaztelecom" CJSC	10,865	-
"Gazprom okhrana" LLC security company	5,832	-
"Sport school" LLC	2,908	-
"Gazprombank" OJSC	1,286	91,609
"Gazpromtorgservis" OJSC	551	-
"Druzhba" OJSV	472	1,081
"Gazprom" OJSC	155	-
"NTV-PLUS" OJSV	64	248
"Gazenergoprombank" CJSC	18	179,619
"Gazprom svyaz" LLC	11	-
Education Organization "Corporate institute of "Gazprom" OJSC	9	-
"OGK-6" OJSC	-	2,925
"Gazpromenergoset nefteprodukt" OJSC	-	1,331
TOTAL	72,112,847	50,847,114

Information about revenues and cost of goods and services is provided net of VAT, excise duties and export duties.

Loans given to the organizations of Gazprom Group (in thousand roubles):

	2010	2009
Outstanding debt as of January 1, 2006	12,768,875	13,375,000
Issued in the reporting year	-	-
Repaid in the reporting year	12,768,875	606,125
As of December 31	-	12,768,875

The specified cash loan was provided to "Gazprom-Invest" CJSC at 8.3%.

As of December 31, 2010, the Company liabilities related to settlements with the organizations of the Gazprom Group amounted to (thousand roubles):

Counteragent name	Accounts receivable		Payables	
	As of December 31, 2010	As of December 31, 2009	As of December 31, 2010	As of December 31, 2009
"Gazenergoprombank" CJSC	664,162	605,749	-	48,112
"Gazenergoprom Invest" CJSC	368,268	1,723,980	-	-
"Gazprombank" OJSC	49,914	66	285	5,518
"Gazenergoprombank" OJSC	27,165	1,131	417	-
"Gazprom energoholding" LLC	18,210	-	22,878	-
"OGK-2" OJSC	17,138	-	-	-
"Gazprom" OJSC	4,535	4,952	534	-
"TGK-1" OJSC	3,249	9,925	-	2,122
"Sport school" LLC	2,028	-	-	-
"Sochigorgaz" OJSC	1,625	-	-	-
"OGK-6" OJSC	482	471	-	-
"NTV-PLUS" OJSV	31	74	-	-
"Stroytransgaz" OJSC	2	231	164	6
"Mosregiongaz" LLC	-	3,954,305	2,484,459	2,504
"Neftyanoy Dom" OJSC	-	10,927	35,860	360
"Gazprom gazenergoset" LLC	-	-	72,824	-
"Gazfond" non-state pension fund	-	-	349	-
"Gazprom okhrana" LLC – private security company	-	-	618	-
"Sogaz" OJSC	-	43	-	7,482
"Sibur Holding" OJSC	-	-	17,655	8,132
"SR-DRAGa" CJSC	-	-	-	2,950
"Gazprommedservis" LLC	-	-	378	2,539
"Gazenergoset" OJSC	-	-	-	93,263
Other	117	71	141	-
TOTAL	1,156,926	6,311,925	2,636,562	172,988

Operations with the participation of other related parties
In the accounting year, the Company was selling heat and electricity and rendered services to the following associated parties (thousand roubles):

	Proceeds from sales	
	For 2010	For 2009
Mosenergo heating and electricity company OJSC	56,898	177,693
TOTAL	56,898	177,693

In the accounting year, the following associated parties were supplying goods rendering services to the Company (thousand roubles):

	Cost of the received goods and services	
	For 2010	For 2009
Mosenergo heating and electricity company OJSC	455,019	7,615
"Central mechanical maintenance plant" LLC	217,433	-
TOTAL	672,452	7,615

Information about revenues and cost of goods and services is provided net of VAT, excise duties and export duties

As of December 31, 2008, the Company debt related to transactions with other associated parties is as follows (thousand roubles):

	Accounts receivable		Payables	
	As of December 31, 2010	As of December 31, 2009	As of December 31, 2010	As of December 31, 2009
"Central mechanical maintenance plant" LLC	45,931	-	100,285	-
TOTAL	45,931	-	100,285	-

Information on transactions with the key management personnel
Key managers of the Company include: Directorial Board members, Governing Board members. The lists of the Director and Governing Board members are presented in the "General information» section of the explanatory note.

The amount of remunerations of the Director General is approved by the Chairman of the Board of Directors of the Mosenergo Open Joint Stock Company. The amounts of remunerations paid to the key management personnel are classified as follows (in thousand roubles):

	For 2010	For 2009	As of December 31, 2010	As of December 31, 2009
Short term remunerations (wages, reward fees and bonuses)	97,914	77,324	-	-
TOTAL	97,914	77,324	-	-

The information in the table above is exclusive of the payments to the extrabudgetary funds.

18. Contingencies and contingent liabilities

Taxation
The Russian tax, foreign currency and customs legislation allows various interpretations and is subject to frequent changes. The Company management does rule out the possibility of future disputes with the supervisory and regulatory authorities in relation to some transactions made in the reporting and previous years that can result in changes of the results of business activities. According to the paragraph 24 of the Provisions for accounting and financial reporting "Contingencies" PBU 8/01, detailed information about such transactions is not to be disclosed in the report.

Tax authorities can chose a more stringent interpretation of law during audits of tax calculations and possibly challenge the taxation procedures, which are used by the Company and which were not previously challenged. As a consequence, substantial additional taxes, overdue interests and fines can be imposed. Besides that, tax audits can extend to three calendar years immediately preceding the year of the audit.

Thus, in the second half of 2009 – beginning of 2010 the tax authorities conducted field audit of the Company for the taxation period from 2006 to 2008. As a result of this audit, the Company was charged with additional tax liabilities in the amount of 95 million roubles. The Company is assessing the probability of such claims made by the tax authority in relation to 89 million roubles being confirmed by the courts of arbitration as low (less than 40%).

Thus, the Company believes that as of the reporting date it does not have any significant unreflected tax liabilities or contingencies that could significantly unfavorably affect operations of the Company and its financial standing.

In the opinion of the Company management, its interpretations of the applicable legislation as of December 31 2010 were adequate, and the position of the company in terms of compliance with tax, currency and customs legislation are going to be stable.

19. Surety granted

As of December 31, 2010, the Company granted securities to third parties under mortgage agreements for the total amount of 208,249 thousand roubles (296,165 thousand roubles as of December 31, 2009). The Company managemen does not expect any considerable liabilities to arise from these sureties.

20. Litigations and pre-trial procedures

As of December 31, 2010, the Company is a defendant in several insignificant arbitration proceedings, inclusively with the atax authorities. In the opinion of the Company management, the results of these proceedings will not considerably affect the financial standing of the Company.

The following two most significant cases are exceptions:

There are eight suits of Mosenergosbit OJSC to the Company in different stages of adjudication in the Court of Arbitration of Moscow, Ninth Arbitration Court of Appeals, Federal Court of Arbitration of Moscow federal district, and Supreme Court of Arbitration of the Russian Federation seeking redress on the Agreement on the principles of joint liability between the companies separated from "Mosenergo" OJSC in the process of reorganization on December 19, 2006 for the total amount of 44,089 thousand roubles. THe likelyhood of satisfaction of the demands of Mosenergosbit OJSC is presently assessed as high (90%). The Company management is considering the need to establish a reserve for the aforementioned suits.

21. Events after the end of reporting period

Dividends

The amount of annual dividends per share will be approved by the General Shareholder Meeting in May-June 2011. The meeting of the Board of Directors of the Company that will discuss the amount of dividends for 2010 to be recommended to the General Shareholder Meeting will take place in April 2011.

Non-core assets

According to the decision of the principal shareholder of the Company and of the Company Board of Directors, Mosenergo OJSC intends to dispose of some non-core assets owned by the Company in 2011. These assets are reflected within the line 120 "Property, plant and equipment" of the balance sheets.

22. Financial crisis

The economics of the Russian Federation is characterized by some risks and properties of developing markets, including relatively high inflation rate and interest rates. Recent global financial crisis substantially affected the Russian economy. In 2010, evidence of improvement of the situation with the Russian economy was observed, expressed in a moderate economic growth. Recovery was accompanied with increasing income of public, decreasing credit interest rates, stabilization of the Russian rouble exchange rate to major currencies, and growing level of market liquidity.

Presently the Company management cannot estimate the effects of possible reversal of the economic recovery processes, including currency market and capital market. The future economic development of the Russian Federation depends substantially on the effectiveness of the decisions made by the RF government including changes in taxation policy, legal environment, and political changes.

The Company management cannot forsee all the possible changes that can affect the Russian economics and hence the effects of such changes on the future financial standing of the Company. The Company management is taking all the actions possible to maintain adequate financial standing and further development of the Company.

CEO________________V.G. Yakovlev   Chief Accountant________________S.A.Suraev

signature   *signature*

« 01 » March 2011

MOSENERGO GROUP
CONSOLIDATED FINANCIAL STATEMENTS (PREPARED IN ACCORDANCE WITH IFRS)
for the year ended 31 December 2010
(with an independent auditor's report thereon)

pwc

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INDEPENDENT AUDITOR REPORT
To the Shareholders and the Board of Directors of Mosenergo:

We have audited the accompanying consolidated financial statements of Mosenergo and its subsidiaries (the «Group») which comprise the consolidated financial statements of as of 31 December 2010 and the consolidated profit and loss, change in equity, and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the numeric values and disclosures contained in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements by the Company in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Opinion
In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw the reader's attention to Notes 1 and 6 to the attached consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in Mosenergo and Governmental economic and social policies affect the Group's financial position, results of operations and cash flow.

March 14, 2011
Moscow, Russian Federation

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

MOSENERGO Group
Consolidated Statement of Financial Position
(in millions of Russian Roubles)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	180,559	187,051
Investment property	8	898	1,020
Advances for acquisition of property, plant and equipment		15,195	13,336
Trade and other receivables	12	15	3,540
Other non-current assets	13	480	850
TOTAL NON-CURRENT ASSETS		197,147	205,797
Current assets			
Inventories	10	6,438	4,541
Investments	11	-	12,130
Income tax receivable		17	320
Trade and other receivables	12	21,115	23,097
Cash and cash equivalents	14	28,334	2,267
Other current assets	13	1,896	1,672
Assets classified as held for sale	9	754	608
TOTAL CURRENT ASSETS		58,554	44,635
Total assets		255,701	250,432
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166,124	166,124
Treasury stock		(871)	(871)

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

	Note	31 December 2010	31 December 2009
Share premium		49,213	49,213
Reserves		86,639	86,746
Accumulated loss		(107,336)	(115,504)
TOTAL EQUITY		193,769	185,708
Non-current liabilities			
Non-current borrowings	16	11,770	16,675
Deferred tax liabilities	28	24,758	24,924
Employee benefits	17	410	367
Trade and other payables	18	946	585
TOTAL NON-CURRENT LIABILITIES		37,884	42,551
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	4,976	2,090
Trade and other payables	18	15,683	17,872
Income tax payable		812	192
Other taxes payable	19	2,389	1,649
Provisions	20	71	278
Liabilities classified as held for sale	9	117	92
TOTAL CURRENT LIABILITIES		24,048	22,173
Total liabilities		61,932	64,724
Total equity and liabilities		255,701	250,432

General Director ____________ V.G. Yakovlev

Chief Accountant ____________ S. A. Suraev

« 14 » March 2011

MOSENERGO Group
Consolidated Statement of Comprehensive Income
(in millions of Russian Roubles)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	21	145,298	112,636
Other operating income	26	1,574	847
Income/(loss) from change in fair value of investment property	8	21	(1,623)
Cost of materials	22	(79,652)	(58,596)
Heat transmission		(24,469)	(18,260)
Depreciation of property, plant and equipment	7	(12,214)	(11,705)
Personnel expenses	24	(9,419)	(9,169)
Maintenance and repairs expenses		(4,281)	(3,009)
Taxes other than income tax		(2,571)	(2,563)
Other external supplies	23	(2,524)	(2,478)
Impairment loss on property, plant and equipment		-	(630)
Other operating expenses	25	(3,885)	(3,551)
Results from operating activities		7,878	1,899
Financial income	27	2,428	1,474
Financial expenses	27	(169)	(1,254)
Gain on withdrawal from subsidiary	9	861	-
Gain on withdrawal from equity accounted investee		-	124
Profit before income tax		10,998	2,243
Income tax (expense)	28	(2,330)	(585)
Profit for the year		8,668	1,658
Other comprehensive income:			
Impairment loss on property, plant and equipment	28	(104)	(2,355)
Derecognition of revaluation of available-for-sale financial assets	28	(24)	-
Revaluation of available-for-sale financial assets	28	-	32
Income tax relating to components of other comprehensive income	28	21	469
Other comprehensive loss on the year, net of tax		(107)	(1,854)
Total comprehensive income/(loss) for the year		8,561	(196)
Profit attributable to: Equity holders of the company		8,668	1,658
Total comprehensive income/(loss) attributable to: Equity holders of the company		8,561	(196)
Basic and diluted earnings per share (in Russian Roubles)	29	0.22	0.04

General Director ____________ V.G. Yakovlev

Chief Accountant ____________ S. A. Suraev

« 14 » March 2011

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

MOSENERGO Group
Consolidated Statement of Cash Flows
(in millions of Russian Roubles)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flow from operating activities			
Profit before income tax		10,998	2,243
Adjustments for:			
Depreciation of property, plant and equipment	7	12,214	11,705
Loss on disposal of property, plant and equipment	25	137	122
Impairment loss on property, plant and equipment		-	630
Financial income		(2,427)	(1,474)
Financial expenses	27	169	1,254
Trade and other receivables impairment loss/(gain)	25	616	(169)
Litigations provision charge	20	100	185
Impairment loss on available-for-sale financial assets	25	72	-
Derecognition of revaluation of available-for-sale financial assets	26	(24)	-
Gain from disposal of available-for-sale financial assets	26	(8)	-
Gain on withdrawal from equity accounted investee		-	(124)
Gain on withdrawal from subsidiary	9	(861)	-
(Income)/loss from change in fair value of investment property	8	(21)	1,623
Impairment loss on remeasurement of assets held for sale	25	123	-
Gain from disposal of assets held for sale	26	(357)	(352)
Other non-cash items		(12)	4
Operating profit before changes in working capital and provisions		20,719	15,647
Change in provisions		(307)	(160)
Change in inventories		(1,886)	(99)
Change in trade and other receivables		6,327	(11,257)
Change in other current and non-current assets		7	53
Change in trade and other payables		(1,622)	8,960
Change in taxes payables, other than income tax		1,497	1,199

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

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Change in employee benefits		(8)	(161)
Cash flows from operations before income tax and interest paid		24,727	14,182
Income tax paid		(2,282)	(2,128)
Cash flows from operating activities		22,445	12,054
Cash flows from investing activities			
Proceeds from sale of assets held for sale		320	3,345
Proceeds from disposal of available-for-sale financial assets		60	-
Proceeds from sale of property, plant and equipment		29	-
Proceeds from disposal of investments		12,768	675
Proceeds from withdrawal from subsidiary	9	1,191	-
Proceeds from withdrawal from equity accounted investee		-	973
Interest received		136	100
Acquisition of property, plant and equipment		(6,663)	(11,579)
Interest paid and capitalized		(1,754)	(2,415)
Acquisition of investments		-	(191)
Debt fee		(110)	(1,101)
Cash flows from /(used in) investing activities		5,977	(10,193)
Cash flows from financing activities			
Proceeds from borrowings		232	13,018
Proceeds from sale of treasury stock	15	-	34
Repayment of borrowings		(2,095)	(15,961)
Dividends paid		(491)	-
Cash flows used in financing activities		(2,354)	(2,909)
Net increase/(decrease) in cash and cash equivalents		26,068	(1,048)
Cash and cash equivalents at the beginning of the year	14	2,267	3,315
Exchange gain on cash and cash equivalents		(1)	-
Cash and cash equivalents at the end of the year	14	28,334	2,267

General Director ________ V.G. Yakovlev

Chief Accountant ________ S. A. Suraev

« 14 » March 2011

MOSENERGO Group
Consolidated Statement of Changes in Equity
(in millions of Russian Roubles)

Attributable to equity holders of OJSC «Mosenergo»

	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total
Balance at 1 January 2009		166,124	(899)	49,213	88,600	(117,168)	185,870
Profit for the year		-	-	-	-	1,658	1,658
Other comprehensive income for the year:							
Revaluation of available-for-sale financial assets	28	-	-	-	30	-	30
Impairment loss on property, plant and equipment	28	-	-	-	(1,884)	-	(1,884)
Total comprehensive income/(loss) for the year		-	-	-	(1,854)	1,658	(196)
Sale of treasury stock	15	-	28	-	-	6	34
Balance at 31 December 2009		166,124	(871)	49,213	86,746	(115,504)	185,708
Balance at 1 January 2010		166,124	(871)	49,213	86,746	(115,504)	185,708
Profit for the year		-	-	-	-	8,668	8,668
Other comprehensive income for the year:							
Impairment loss on property, plant and equipment	28	-	-	-	(83)	-	(83)
Derecognition of revaluation of available-for-sale financial assets	28				(24)	-	(24)
Total comprehensive income/(loss) for the year		-	-	-	(107)	8,668	8,561
Dividends to shareholders	15					(500)	(500)
Balance at 31 December 2010		166,124	(871)	49,213	86,639	(107,336)	193,769

General Director ________ V.G. Yakovlev

Chief Accountant ________ S. A. Suraev

« 14 » March 2011

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

MOSENERGO Group
Notes to Consolidated Financial Statements
(in millions of Russian Roubles)

NOTE 1

The Group and its operations

(a) Organization and operations

The Open Joint Stock Company "Mosenergo" (the "Company") and its subsidiaries (together referred as the "Group" or the "Mosenergo Group") are primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group's power and heat generation base includes 15 power stations with operational capacity equaled approximately 11,900 megawatts ("MW") and 34,855 gigacalories/hour ("Gkal/h") of electricity and heat capacity, respectively.

OJSC "Mosenergo" was registered under the legislation of the Russian Federation on 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatization process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation.

The Company's registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

On 1 April 2005, the Company was reorganized through a spin-off following the reorganization process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company's restructuring was approved by general shareholder's meeting on 28 June 2004. Before the restructuring took place the Company operated as an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company's shares held by them prior to spin-off.

A general shareholders' meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC "Gazprom" and its affiliates (together referred as the "Gazprom Group"). As a result, the majority shareholder of OJSC "Mosenergo" changed from RAO UES of Russia to "Gazprom Group" holding 53.47% of ordinary shares. Following the reorganization process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC "Mosenergo", held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganization. Accordingly, upon spin-off from RAO UES of Russia OJSC "Mosenergo Holding" (the "Mosenergo Holding") received stake in OJSC "Mosenergo" held by RAO UES of Russia. Simultaneously with the spin-off "Mosenergo Holding" was merged with the Company and its shares were converted into the Company's shares.

In February 2009, the Company's Board of Directors approved a program to improve the Company's organisational structure, which is aimed to concentrate production resources, optimize the labor capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other, reallocation and outsourcing of non-core functions.

In April 2009 OJSC "Gazprom" transferred its 53.47% share in the Company to its 100% subsidiary LLC "Gazpromenergoholding" (previously - LLS "Gazoenergeticheskaya Kompaniya") which became the parent company of OJSC "Mosenergo".

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC "Gazprom" (the previous "Parent"), which held 53.47% of the Company through its 100% subsidiary LLC "Gazprom Energoholding" (immediate parent company). Thus the OJSC "Gazprom" is the ultimate parent company of the Group and Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the "FST") and the Regional Energy Commissions of Moscow and Moscow region (the "RECs"), respectively. OJSC "System Operator - Central Dispatch Unit of Unified Energy System" (the "SO - CDU UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base as well as suppliers' chain includes a large number of entities controlled by or related to the state.

As described in Note 6 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition to the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

The period from 2006 to 2011 is considered as a transitional period. Upon the termination of the transitional period, the organization of a competitive market for electricity market will be completed.

Electricity volumes produced, not covered by the regulated contracts, is traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting 2011 the majority of the contracts for electricity and capacity supply will be engaged at unregulated prices: free bilateral contracts or on a day-ahead market.

The introduction of the new wholesale market also covered capacity trading. Before the new market rules launch, suppliers were paid only for 85% of installed capacity at a flat-rate tariff. The new rules result in separate tariffs for electricity and capacity. Capacity tariffs are planned to be established at levels sufficient to maintain generation facilities of producers.

According to Russian Federation Government Resolution № 89 dated 24 February 2010 starting 1 January 2011 the capacity will be supplied using the following schemes at the wholesale market: capacity trading at Commercial Capacity Selection for the following year; capacity trading with the free buying and selling contracts; capacity trading using Capacity Supply Contracts; capacity trading of necessitate generators (power generating objects which were not selected during commercial capacity selection but their functioning is necessary due to technological or other reasons). Capacity Supply Contracts on the one part – support obligations of the capacity suppliers for the completion of their investment program, on the other part – grant the settlement for the capacity generated by the new (modernized) generating objects.

NOTE 2
Basis of preparation

(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement
The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; investment property are measured at fair value; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency
The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 17 – Employee benefits;
- Note 20 – Provisions, and;
- Note 33 – Operating segments.

NOTE 3
Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

MOSENERGO Group
Notes to Consolidated Financial Statements
(in millions of Russian Roubles)

(a) Reclassification of comparatives

The consolidated statement of financial position and the consolidated statement of comprehensive income have been revised to present more detailed classification of items based on their nature to provide the users of the financial statements with more relevant information about the financial performance of the Group. In addition, certain comparative amounts in the consolidated statement of financial position have been reclassified to conform to the current period's presentation. The above mentioned reclassification did not have any impact on the consolidated statement of financial position and the financial results in the consolidated statement of comprehensive income.

The revised IAS 1, Presentation of Financial Statements, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), including situations when the entity retrospectively reclassifies items in its financial statements. The changes in presentation due to reclassifications in the statement of financial position of the Group adopted in 2010 have the effect on the financial position of the Group as at 1 January 2009 amounted to RR 163 million. In management's opinion, mentioned above reclassifications do not have material effect on statement of financial position as at 1 January 2009. Management considers that these omissions of the presentations are permitted as has no influence on ability of users of the consolidated financial statements to take economic decisions.

(i) Consolidated statement of financial position

The following are the consolidated statement of financial position captions as at 31 December 2009 as reported previously and adjusted:

	As originally presented	Item	Changes due to reclassification	As adjusted
Advances for acquisition of property, plant and equipment	13,215	1	121	13,336
Trade and other receivables (non-current)	3,662	1	(122)	3,540
Other non-current assets	849	1	1	850
Trade and other receivables (current)	23,056	2	41	23,097
Investments	12,171	2	(41)	12,130
TOTAL assets	250,432		-	250,432
Trade and other payables (non-current)	201	3	384	585
Trade and other payables (current)	18,256	3	(384)	17,872
TOTAL equity and liabilities	250,432		-	250,432

Item 1. Advances given to suppliers of equipment and capital construction contractors were reclassified from "Trade and other receivables (non-current)" to "Advances for acquisition of property, plant and equipment" in amount of RR 121 million with corresponding VAT in amount of RR 1 million were reclassified to "Other non-current assets".

Item 2. Trade receivables under cession agreements were reclassified from "Iinvestments" to "Trade and other receivables (current)" in amount RR 41 million.

Item 3. Trade payables under technological connection agreements were reclassified from "Trade and other payables (current)" to "Trade and other payables (non-current)" in amount of RR 384 million.

(ii) Consolidated statement of comprehensive income

The following are the consolidated statement of comprehensive income captions for the twelve months ended 31 December 2009 as reported previously and adjusted:

	As originally presented	Item	Changes due to reclassification	As adjusted
Other operating income	1,062	1	(215)	847
Other external suppliers	(2,234)	2.3	(244)	(2,478)
Other operating expenses	(3,804)	1.3	253	(3,551)
Maintenance and repairs expenses	(3,215)	2	206	(3,009)
PROFIT for the year	1,658		-	1,658

Item 1. Fines and penalties from business contract were reclassified from "Other operating income" to "Other operating expense" in amount of RR 215 million.

Item 2. Cleaning services expenditure was reclassified from "Maintenance and repairs expenses" to "Other external supplier expenses" in amount of RR 206 million.

Item 3. Recycling of wastes expenditure was reclassified from "Other operating expenses" to "Other external supplier expenses" in amount of RR 38 million.

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

(b) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Associates (equity accounted investees)
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(d) Financial instruments

(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates at fair value through profit or loss.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury stock)

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Until 31 December 2006, items of property, plant and equipment, except for land, were measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 31 December 1997, the date of transition to IFRSs, was determined by reference to its fair value at that date and subsequently restated to take into account the impact of inflation until 31 December 2002.

The Group changed its accounting policy to revaluing its property, plant and equipment starting from 1 January 2007 as management believes that it would provide the users of the financial statements with more relevant information about the financial position of the Group.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognized in other comprehensive income and accumulated in equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognized in the revaluation reserve directly in other comprehensive income. Any loss is recognized in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognized immediately in profit or loss.

(iii) Reclassification to assets held-for-sale

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use, the property is remeasured to fair value and reclassified as assets held for sale. Any gain arising on remeasurement is recognized in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognized in the revaluation reserve directly in other comprehensive income. Any loss is recognized in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognized immediately in profit or loss.

(iv) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimate useful lives for the year 2009 were not changed for the year 2010 and were as follows:

- Buildings and constructions 20-60 years
- Plant and equipment 10-30 years
- Transmission networks 5-30 years
- Other 1-15 years

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(g) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(k) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial recognition as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Actuarial gains and losses which arise in the reporting period stay unrecognised. The Company recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets);
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined as described above, divided by the expected average remaining working lives of the employees.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iiii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as a combination of the Board of Directors and Chief Executive Officer who are jointly make strategic decisions.

(o) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(p) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognized as income and included in other operating income.

(q) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(r) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on gross basis.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) New Standards and Interpretations

(i) The following new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2010, and have not been applied in preparing these consolidated statements. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group concluded that the revised standard does not have any effect on its financial statements.

- Amendment to IAS 32 Classification of Rights Issues - (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group concluded that the revised standard does not have any effect on its financial statements.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group concluded that the revised standard does not have any effect on its financial statements.

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the amendments to have any material effect on its financial statements.

- Amendment to IFRIC 14, Prepayments of minimum funding requirement – (issued in November 2009; effective for annual periods beginning on or after 1 January 2011). The amendments clarifies recognition as an asset some voluntary prepayments for minimum funding contributions. The Group does not expect the amendments to have any material effect on its financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interests or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquire is share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January

2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

(ii) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, did not have a significant impact on the consolidated financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and – Measurement Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 financial statements, with retrospective application required, did not have a significant impact on the consolidated financial statements

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard did not have a significant impact on the consolidated financial statements.

- Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions, Share-based Payment* (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in other comprehensive income. The amendments did not have a significant impact on the consolidated financial statements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners addresses* the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 comes into effect for annual periods beginning on or after 1 July 2009. It did not have significant impact on consolidated financial statements.

- IFRIC 18 *Transfers of Assets from Customers applies* to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. It did not have significant impact on consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of the fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from other comprehensive income to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group concluded that the amendments to standards did not have a significant impact on the consolidated financial statements.

NOTE 4
Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods, described further. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and investment property

The fair value of property, plant and equipment and investment property is determined either using market approach, depreciated replacement cost or income approach.

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined applying depreciated replacement cost method or income approach. The depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Under the income approach, the values of the property are derived from the present value of future cash flows expected to be derived from the use and eventual sale of the property.

(b) Investments in equity and debt securities

The fair values of available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date..

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

NOTE 5
Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk, and;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversights of the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Director of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Direction of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department on Account and Analysis of Financial Risks. Liquidity risk is addressed by the Treasury Department and the Department on Budgeting and Managerial Accounting. These departments are accountable to the Deputy General Director on Finance and Budgeting who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarized in the Company's Regulations on Risk Management which are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyzes accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for the period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Individual terms can be stipulated in free bilateral contracts for electricity (capacity). Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organizations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established. Gradually the Group plans to switch to 100% prepayment approach when the transitional period from regulated to free bilateral selling contracts will be completed.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taking on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group's policy does not stipulate providing any financial guarantees for customers.

(iii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least Baa 1 from Moody's and Aaa from Moody's, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro, USD and Swiss Francs (CHF).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's policy in respect of mitigating currency risk includes minimizing share of borrowings in foreign currencies comparing to total credit portfolio, which is 14% at 31 December 2010 (31 December 2009: 12%). To minimize currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimize interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in the future.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Consistent with other companies of the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus the net debt.

(in millions of Russian Roubles)

The gearing ratios at 31 December 2010 and at 31 December 2009 were as follows:

	31 December 2010	31 December 2009
Borrowings (Note 16)	(16,746)	(18,765)
Cash and cash equivalents (Note 14)	28,334	2,267
Net cash	11,588	(16,498)
Equity	(193,769)	(185,708)
TOTAL CAPITAL	(182,181)	(202,206)
Gearing ratio	-	8.2%

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

- share capital cannot be lower than 1,000 minimum shares at the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets, and;
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 31 December 2010, the Group was in compliance with the above share capital requirements.

NOTE 6
Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2010 and the year ended 31 December 2009 or had significant balances outstanding at 31 December 2010 and at 31 December 2009 are detailed below. OJSC "Gazprom" is an ultimate Parent Company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates

Company has the following turnover and balances outstanding with Gazprom Group and its associates.

Revenue

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity	-	16
Heat	52	31
Other revenue	186	215
TOTAL	238	262

Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Fuel expenses	(70,232)	(49,978)
Insurance expenses	(265)	(312)
Voluntary medical insurance expenses	(108)	(136)
Other operating expenses	(229)	(422)
TOTAL	(70,834)	(50,848)

Insurance expenses and voluntary medical insurance expenses for the year ended 31 December 2010 are from Strakhovaya group "Sogaz", associate of OJSC "Gazprom", in the amount of RR 265 million and RR 108 million, respectively (for the year ended 31 December 2009: RR 312 million and RR 136 million, respectively).

Other operating expenses for the year ended 31 December 2010 are from OJSC "Neftyanoi dom" and LLC "Gazprommedservis", associates of OJSC "Gazprom", in the amount of RR 118 million and RR 42 million, respectively (for the year ended 31 December 2009: RR 0 million and RR 0 million, respectively).

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Financial income and expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Financial income	1,475	1,313
Financial expenses	(57)	(148)
NET FINANCIAL INCOME	1,418	1,165

Financial income for the year ended 31 December 2010 is from CJSC "Gazenergoprom Invest", OJSC "Gazprombank" and OJSC "AB "Russia", associates of OJSC "Gazprom", in the amount of RR 1,094 million, RR 254 million and RR 127 million (for the year ended 31 December 2009: RR 1,087 million, RR 208 million and RR 18 million, respectively).

Financial expense for the year ended 31 December 2010 is from OJSC "Gazprombank", associate of OJSC "Gazprom", in the amount of RR 57 million (for the year ended 31 December 2009: RR 148 million).

Outstanding balance

	Outstanding balance at 31 December 2010	Outstanding balance at 31 December 2009
Investments	-	12,130
Trade and other receivables	3,390	6,517
Cash and cash equivalents	11,627	1,805
TOTAL ASSETS	15,017	20,452
Trade and other payables	(2,464)	(571)
TOTAL LIABILITIES	(2,464)	(571)

Investments include an outstanding balance with CJSC "Gazenergoprom-Invest", associate of OJSC "Gazprom", in the amount of RR 0 million at 31 December 2010 (31 December 2009: RR 12,130 million).

Trade and other receivables include an outstanding balance with CJSC "Gazenergoprom-Invest", OJSC "Gazprombank" and OJSC "Neftyanoi dom", associate of OJSC "Gazprom", in the amount of RR 2,618 million, RR 210 million and RR 1 million at 31 December 2010 (31 December 2009: RR 1,724 million, RR 62 million and RR 0 million, respectively).

Cash and cash equivalents include an outstanding balance with OJSC "Gazprombank" and OJSC "AB "Russia", associate of OJSC "Gazprom", in the amount of RR 8,479 million and RR 3,000 million, respectively, at 31 December 2010 (31 December 2009: RR 1,542 million and RR 263 million, respectively).

(b) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Group) received the following remuneration, which is included in personnel expenses and has the following outstanding balances:

Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	(98)	(77)
Social taxes and contributions	(2)	-
Long-service benefit	-	(1)
Termination benefits	(2)	-
TOTAL	(102)	(78)

Outstanding balance

	Outstanding balance at 31 December 2010	Outstanding balance at 31 December 2009
Wages and salaries	-	-
TOTAL	-	-

(c) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates and as disclosed in Note 6(a).

In the normal course of business the Group enters into transactions with other entities under control of government of the Russian Federation.

Revenue

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity	77,237	58,731
Heat	53,930	39,031
Other revenue	1,869	3,228
TOTAL	133,036	100,990

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

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Expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Heat transmission	(24,469)	(18,260)
Purchased heat and electricity	(6,429)	(5,091)
Electricity market administration fees	(974)	(1,035)
Water usage expenses	(941)	(702)
Security services	(288)	(266)
Fuel expenses	(138)	(108)
Other operating expenses	(1,441)	(1,896)
TOTAL	(34,680)	(27,358)

Financial income and expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Financial income	65	30
Financial expenses	-	(451)
Net financial income	65	(421)

Outstanding balance

	Outstanding balance at 31 December 2010	Outstanding balance at 31 December 2009
Trade and other receivables	15,321	14,694
Other current assets	523	523
Cash and cash equivalents	13,261	429
TOTAL ASSETS	29,105	15,646
Trade and other payables	(7,278)	(6,632)
TOTAL LIABILITIES	(7,278)	(6,632)

Borrowings

	Amount loaned for the year ended 31 December 2010	Amount loaned for the year ended 31 December 2009	Outstanding balance at 31 December 2010	Outstanding balance at 31 December 2009
Current borrowings and current portion of non-current borrowings	-	(5,500)	-	-
TOTAL BORROWINGS	-	(5,500)	-	-

NOTE 7
Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2009	92,462	55,239	13,429	10,224	23,953	195,307
Additions	311	454	-	79	7,711	8,555
Disposals	(4)	(13)	-	(121)	(309)	(447)
Transfers	7,718	1,016	422	1,163	(10,319)	-
Elimination of accumulated depreciation on property transferred to assets classified as held for sale	(1,332)	-	-	(5)	-	(1,337)
Transfer to assets held for sale	(1,641)	-	-	(51)	-	(1,692)
Balance at 31 December 2009	97,514	56,696	13,851	11,289	21,036	200,386
Balance at 1 January 2010	97,514	56,696	13,851	11,289	21,036	200,386
Reclassification	2,049	5,569	(168)	(7,450)	-	-
Additions	-	-	-	36	6,392	6,428
Disposals	(39)	(7)	(34)	(73)	-	(153)
Transfers	1,448	3,526	226	1,364	(6,564)	-
Elimination of accumulated depreciation on property transferred to assets classified as held for sale	(128)	-	-	-	-	(128)
Transfer to assets held for sale	(391)	-	-	(59)	(32)	(482)
Balance at 31 December 2010	100,453	65,784	13,875	5,107	20,832	206,051

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

(in millions of Russian Roubles)

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2009	-	-	-	-	-	-
Depreciation charge	(5,912)	(3,117)	(1,552)	(1,124)	-	(11,705)
Disposals	2	4	-	12	-	18
Elimination of accumulated depreciation on property transferred to assets classified as held for sale	1,332	-	-	5	-	1,337
Impairment loss	(2,535)	(197)	-	-	(253)	(2,985)
Balance at 31 December 2009	(7,113)	(3,310)	(1,552)	(1,107)	(253)	(13,335)
Balance at 1 January 2010	(7,113)	(3,310)	(1,552)	(1,107)	(253)	(13,335)
Reclassification	684	(401)	29	(312)	-	-
Depreciation charge	(6,022)	(3,901)	(1,558)	(733)	-	(12,214)
Disposals	4	3	10	16	-	33
Elimination of accumulation depreciation on property transferred to assets classified as held for sale	128	-	-	-	-	128
Impairment loss	(104)	-	-	-	-	(104)
Balance at 31 December 2010	(12,423)	(7,609)	(3,071)	(2,136)	(253)	(25,492)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2009	92,462	55,239	13,429	10,224	23,953	195,307
At 1 January 2010	91,459	53,386	12,299	9,124	20,783	187,051
At 31 December 2010	88,030	58,175	10,804	2,971	20,579	180,559

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2009	44,811	26,300	6,394	4,869	11,407	93,781
At 1 January 2010	32,981	32,734	2,594	7,879	19,099	95,287
At 31 December 2010	33,370	37,862	2,476	2,561	15,692	91,961

Borrowing costs of RR 1,743 million and RR 2,516 million for the year ended 31 December 2010 and 31 December 2009, respectively, are capitalised in additions above. Capitalisation rates of 10.07% and 13.00% for the year ended 31 December 2010 and 31 December 2009, respectively, were used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for Company's bank loans at 31 December 2010 and 31 December 2009.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from cost model to revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

In 2008 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment at 31 December 2008. The fair value of property, plant and equipment was determined to be RR 195,307 million.

In 2010 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of reporting period and, therefore, revaluation was not performed in 2010.

(b) Impairment test

The Group assessed at 31 December 2009 and at 31 December 2010 whether there were any indicators that the Group assets may be impaired. During the procedure both external and internal indications were considered that could require the Group to estimate the recoverable amount of the assets.

At 31 December 2010 the Company assessed the indicators of the assets impairment through the sensitivity analysis, performed by the independent appraiser and concluded that significant changes with adverse effect did not take place in the period on the entity in the technological,

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market, economic or legal environment in which the entity operates as well as in the segment to which assets are dedicated. Additionally, there is strong evidence of an absence of physical obsolescence and damage of particular assets, as well as the worsening of economic performance of assets. Therefore impairment test was not performed at the reporting date.

At 31 December 2009 the Group identified the indicators and performed impairment test. The impairment amounted to RR 973 million was recognised in the other comprehensive income in amount of RR 343 million and in the profit or loss in amount of RR 630 million.

For the purposes of impairment test the recoverable amount was determined as value in use and the following key assumptions were used:

- 21 cash-generating units were identified;
- Cash flows were projected based on actual operating results and the 12-year business plan;
- The anticipated annual production growth included in cash flow projections was 3.5%, and
- A discount rate of 13.11% was applied in determining the recoverable amount of the plants.

The Group continues to be is in the process of disposing non-core assets included in property, plant and equipment, which were reclassified to the assets held for sale during the reporting period. Before transferring assets to the disposed group a valuation was obtained for such items and, resultantly, a decrease in fair value of RR 104 million (31 December 2009: RR 2,012 million) was recognised in other comprehensive income for the year ended 31 December 2010.

c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 31). At 31 December 2010 and at 31 December 2009 the net carrying amount of leased plant was RR 300 million and RR 374 million, respectively.

NOTE 8

Investment property

	2010	2009
Balance at 1 January	1,020	4,552
Income/(loss) from change in fair value of investment property	21	(1,623)
Transfer to assets held for sale	(143)	(1,909)
Balance at 31 December	898	1,020

The fair value of the Group's investment property at 31 December 2010 was determined to be RR 898 million (31 December 2009: RR 1,020 million) and based on the market trends for the year 2010.

Rental income for the year ended 31 December 2010 and for the year ended 31 December 2009 amounted to RR 101 million and RR 329 million respectively, was recognised in the consolidated statement of comprehensive income in other revenue.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 December 2010	31 December 2009
Less than one year	118	81
Between one and five years	-	-
More than five years	-	-
TOTAL	118	81

NOTE 9

Disposal group classified as held for sale

(a) Assets classified as held for sale

	31 December 2010	31 December 2009
Property, plant and equipment	463	237
Investment property	291	371
TOTAL	754	608

(b) Liabilities classified as held for sale

	31 December 2010	31 December 2009
Deferred tax liabilities	117	92
TOTAL	117	92

During 2010 the Group is in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in amount RR 482 million and from investment property assets in amount RR 143 million. At 31 December 2010 the Company keep on possessing assets for disposals in amount RR 754 million and corresponding to them liabilities in amount of RR 117 million (31 December 2009: RR 608 million and RR 92 million, respectively). The Company envisages selling its real estate portfolio listed above during the first half of 2011.

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An impairment loss of RR 123 million on remeasurement of assets for disposal to the lower of its carrying amount and its fair value less costs to sell has been recognised in the consolidated statement of comprehensive income in the other operation expenses during twelve months ended 31 December 2010.

On 31 May 2010 the decision to dispose OJSC "TEK Mosenergo" was made by the Board of Directors of the Company. The subsidiary was sold as at 26 October 2010 to CJSC "SMP Energo". As a result of withdrawal the Group recognised a gain in amount of RR 861 million in the consolidated statement of comprehensive income.

The following assets and liabilities were disposed as result of transaction:

	Year ended 31 December 2010
Property, plant and equipment	78
Inventories	194
Trade and other receivables	5,704
Cash and cash equivalents	404
Other current assets	1,965
Total liabilities	(8,024)
TOTAL NET ASSETS	321

	Year ended 31 December 2010
Cash consideration	1,191
Less: selling costs	(9)
Less: carrying amount of net assets	(321)
Gain on withdrawal from subsidiary	861

NOTE 10
Inventories

	31 December 2010	31 December 2009
Fuel	4,528	2,768
Raw materials and consumables	1,847	1,707
Other inventories	63	66
TOTAL	6,438	4,541

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 11 million and RR 23 million at 31 December 2010 and 31 December 2009, respectively. The write-downs and reversals are included in other operating expenses. Inventories held by the Company are not subject to any retention of title clauses.

NOTE 11
Investments

	31 December 2010	31 December 2009
Loans given to CJSC "Gazenergoprom-Invest"	-	12,130
TOTAL	-	12,130

The Group's exposure to credit, currency and interest risks related to investments is disclosed in Note 30.

NOTE 12
Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	15,860	14,460
Other receivables	3,026	2,526
Financial assets	18,886	16,986
Advances to suppliers and prepaid expenses	565	8,052
VAT recoverable	1,194	1,198
Taxes other than income tax prepaid	39	55
Other receivables	446	346
TOTAL	21,130	26,637
Non-current assets	15	3,540

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	31 December 2010	31 December 2009
Current assets	21,115	23,097
TOTAL	21,130	26,637

Trade receivables balances are recorded net of provision for impairment of RR 1,241 million and RR 1,314 million at 31 December 2010 and 31 December 2009, respectively.

Other receivables balances are recorded net of provision for impairment of RR 193 million and RR 276 million at 31 December 2010 and 31 December 2009, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 30.

NOTE 13
Other assets

	31 December 2010	31 December 2009
Other non-current assets		
Intangible assets	432	523
Available-for-sale financial assets	13	256
Investments in equity accounted investees	5	5
Other non-current assets	30	66
TOTAL	480	850
Other current assets		
Constructed assets financed by the government of Moscow city	523	523
Other current assets	1,373	1,149
TOTAL	1,896	1,672

Since June 2005 the Group was engaged in the construction of the power substation further to be jointly used by the Group and the government of Moscow city. Construction of the power substation is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses liability to the government of Moscow city amounted to RR 523 million.

NOTE 14
Cash and cash equivalents

	31 December 2010	31 December 2009
Bank balances	3,805	2,267
Call deposits	24,529	-
TOTAL	28,334	2,267

Call deposits are qualified as cash equivalents as original maturity of the deposits is three months or less from the date of acquisition.

Information in respect of call deposits and applicable interest rate is as follows:

Bank	31 December 2010		31 December 2009	
	%	Balances	%	Balances
OJSC "Bank VTB"	3.72	13,260	-	-
OJSC "Gazprombank"	4.25	8,269	-	-
OJSC "AB "Russia"	5.50	3,000	-	-
TOTAL		24,529	-	-

NOTE 15
Equity

(a) Share capital and share premium

At 31 December 2010 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2009: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

Treasury stock represents cost of Company's shares held by the Group. At 31 December 2008 the Group held 163,904,251 of the Company's own shares. Within the period from 15 April 2009 to 27 April 2009 the Group came to the decision to sell 23,674,800 shares. Proceeds from the sale amounted to RR 34 million.

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Thus the treasury stock at 31 December 2009 and at 31 December 2010 amounted to RR 871 million.

No decisions regarding further operations with treasury stock were made by the Company's management.

(c) Reserves
At 31 December 2010 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 8 million (31 December 2009: RR 30 million) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 86,631 million (31 December 2009: RR 86,716 million).

(d) Dividends
In June 2010 the general shareholders meeting made the decision to pay dividends for the result of financial year 2009. The amount of declared dividends on the issuer's shares was RR 0.01262335 per share, total amount of dividends is RR 500 million.

The decisions related to dividends distribution for fiscal year 2010 are scheduled at the general shareholders' meeting in May-June 2011.

NOTE 16

Borrowings
The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortized cost.

	31 December 2010	31 December 2009
Non-current borrowings		
Unsecured bond issues	9,783	14,412
Unsecured bank loans	1,987	2,263
TOTAL	11,770	16,675
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	4,629	2,000
Current portion of unsecured bank loans	347	-
Notes	-	90
TOTAL	4,976	2,090

(a) Terms and debt repayment schedule
Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans				3,282	2,334	3,281	2,263
Credit Agricole CIB Deutschland	EURO	7.2%	2014	840	782	1,084	1,017
Credit Agricole CIB Deutschland	EURO	7.2%	2011	88	88	-	-
Credit Agricole CIB Deutschland	EURO	EURIBOR6m+ 1.95%	2025	128	-	133	-
Credit Agricole CIB Deutschland	EURO	EURIBOR6m+ 1.95%	2011	80	80	-	-
BNP Paribas	EURO	EURIBOR6m+2%	2023	1,967	1,205	2,064	1,246
BNP Paribas	EURO	EURIBOR6m+2%	2011	179	179	-	-

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	Currency	Nominal interest rate	Year of maturity	31 December 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bond issues				14,412	14,412	16,412	16,412
Unsecured bond issue № 1	Russian Roubles	12.50%	2011	4,629	4,629	4,629	4,629
Unsecured bond issue № 2	Russian Roubles	7.65%	2016	4,783	4,783	4,783	4,783
Unsecured bond issue № 3	Russian Roubles	10.25%	2014	5,000	5,000	5,000	5,000
Unsecured bonds BO-02	Russian Roubles	11.45%	2010	-	-	2,000	2,000
Notes				-	-	95	90
OJSC "Mezhtopenergobank"	Russian Roubles	free of interest	2010	-	-	95	90
TOTAL				17,694	16,746	19,788	18,765

NOTE 17
Employee benefits

The Company sponsors a post-employment and other long-term benefit program that covers the majority of the Company's employees. The plan was changed in July 2008 and since this date principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Company. The plan is administrated by non-state pension fund.

To be entitled for participation in this new defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Company.

In addition to defined contribution pension plan the Company maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement. The main benefits provided under this agreement are lump sum upon retirement and jubilee benefits.

A new collective employment agreement came into force since 1 January 2010. There were no significant changes benefits compared to the version effective in prior year.

During the course of 2010 the Company continues implementing a restructuring programme which resulted in redundancies recognised as a curtailment. Compensations for redundancies paid by the Company for the year ended 31 December 2010 and for the year ended 31 December 2009 amounted to RR 618 million and RR 253 million, respectively, were recognised in the consolidated statement of comprehensive income in personal expenses.

	31 December 2010	31 December 2009
Present value of unfunded obligations	512	489
Recognised liability for defined benefit obligations	512	489
Unrecognised actuarial (losses)/gains	(18)	7
Unrecognised past service cost	(84)	(129)
NET liability recognised in balance sheet	410	367

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(a) Movement in the present value of the defined benefit obligations

	2010	2009
Defined benefit obligations at 1 January	489	482
Actuarial losses	36	61
Interest on employee benefit obligations	51	43
Current service cost	19	20
Past service cost	101	241
Benefits paid	(58)	(39)
Effect of curtailment and settlement	(126)	(319)
Defined benefit obligations at 31 December	512	489

(b) Expenses recognised in profit or loss

	Year ended 31 December 2010	Year ended 31 December 2009
Termination benefits	618	253
Interest on employee benefit obligations	51	43
Net actuarial loss recognised in period	6	68
Current service cost	19	20
Amortization of past service cost	18	18
Past service cost (immediate recognition)	101	73
Effect of curtailment and settlement	(94)	(279)
TOTAL	719	196

(c) Actuarial assumptions
Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 December 2010	31 December 2009
Discount rate	7.50%	9.00%
Inflation rate	6.00%	6.50%
Future salary increases	7.50%	8.00%
Future pension increase	6.00%	6.50%

(ii) Demographic assumptions
Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 25% pa for employees with 1 year of past service to around 7% pa for those who have 20 or more years of service. Similar withdrawal rates were used at 31 December 2009.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 59 years for women. The same retirement ages were used as at 31 December 2009.

Mortality table: Russian urban population mortality table 1986-87.

(d) Historical information

	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Present value of the defined benefit obligation	512	489	482	3,008
Deficit in the plan	512	489	482	3,008
Experience adjustments arising on plan liabilities	8	62	42	(249)

NOTE 18
Trade and other payables

	31 December 2010	31 December 2009
Trade payables	10,324	7,638
Other payables	2,462	4,095
Financial liabilities	12,786	11,733
Advances received	2,864	5,867
Other payable	979	857
TOTAL	16,629	18,457
Non-current liabilities	946	585
Current liabilities	15,683	17,872
TOTAL	16,629	18,457

The Group’s exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

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NOTE 19
Other taxes payable

	31 December 2010	31 December 2009
VAT payable	1,588	603
Property tax payable	579	689
Social taxes and contributions payable	189	306
Other taxes payable	33	51
TOTAL	2,389	1,649

NOTE 20
Provisions

	2010	2009
Balance at 1 January	278	253
Provisions made during the period	226	199
Provisions used during the period	(307)	(160)
Provisions recovered during the period	(126)	(14)
Balance at 31 December	71	278

In the period 2008-2009 there was a claim against the Company from OJSC "MTK" regarding levy of interest for "use of other entity's funds" due to late payment as per contract on supply of heat energy and heat transfer in initial amount of RR 260 million. At 31 December 2008 the corresponding provision was made in amount of RR 112 million. In the first half of the year 2009 an amicable agreement with OJSC "MTK" was concluded and the corresponding provision was increased up to RR 160 million. In the third quarter 2009 the provision was used and the claim was settled.

At the end of the year 2009 the similar nature of issue as mentioned above claimed from OJSC "MTK" against the Company but in respect of another period of settlements. The new claim was initially amounted to RR 181 million and the corresponding provision was made in fourth quarter 2009 in amount of RR 59 million. In the first quarter 2010 an amicable agreement with OJSC "MTK" was concluded on amount of RR 145 million and the corresponding provision was increased up to RR 145 million. At the reporting date this claim was fully paid.

In the third quarter 2010 there was a new claim against the Company from OJSC "MTK" regarding levy of interest for "use of other entity's funds" due to late payment as per contract on supply of heat energy and heat transfer in initial amount of RR 134 million. The amicable agreement with OJSC "MTK" was concluded on amount of RR 107 million and the corresponding provision was created for the amount of RR 107 million. At the reporting date this claim was fully paid.

Starting from year 2008 and up to the date of these financial statements authorization, there are four unsettled claims against the Company regarding levy of interests for "use of other entity's funds" due to late payments that occurred when changes to the LLC CB "Transinvestbank" Charter were found void. Total amount of the claims is RR 239 million. The Company's management estimated probability of these claims settlement not in favor of the Company as highly probable. The outflow of economic benefits amounting to RR 120 million using the probability weights cash flow approach was determined by the Company's management, at 31 December 2008. During the fourth quarter 2010 the claims were dismissed and the corresponding provision was recovered in amount of RR 120 million.

At the end of the year 2009 there were 26 claims against the Company from OJSC "Mosenergosbyt" in respect of the account receivables redress in according to Agreement of Joint and several liability in total amount of RR 92 million. At 31 December 2009 the corresponding provision was made in full amount of claims. During the year 2010 OJSC "Mosenergo" settled 18 claims in total amount of RR 48 million. At the reporting date the corresponding reserve in relation to 8 claims was made in total to RR 44 million.

The remaining balance at 31 December 2010 amounted to RR 27 million relates to the reserve accrued within the framework of Group's routine business activity.

NOTE 21
Revenue

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity	78,862	61,559
Heat	62,307	47,508
Other revenue	4,129	3,569
TOTAL	145,298	112,636

Other revenue relates to rent, water usage, repair and maintenance services provided by the Group.

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Approximately 8% and 8% of sales of electricity for the year ended 31 December 2010 and ended 31 December 2009, respectively, relates to resale of purchased electricity on wholesale market NOREM.

NOTE 22
Cost of materials

	Year ended 31 December 2010	Year ended 31 December 2009
Fuel expenses	70,372	51,417
Purchased heat and electricity	7,112	5,179
Water usage expenses	969	1,261
Other materials expenses	1,199	739
TOTAL	79,652	58,596

Electricity is purchased mainly on wholesale electricity market.

NOTE 23
Other external supplies

	Year ended 31 December 2010	Year ended 31 December 2009
Electricity market administration fees	974	1.035
Security services	371	321
Cleaning services	287	206
Transport services	256	229
Fire prevention services	89	95
Connection services	88	359
Recycling of wastes	48	38
Other services	411	195
TOTAL	2,524	2,478

Electricity market administration fees include payments to OJSC "Administrator torgovoi sistemy" and CJSC "Centr finansovyh raschetov" for arrangement of settlements between parties on electricity market and payments to OJSC "SO - CDU UES" for regulation of operations of generating assets of the Group.

NOTE 24
Personnel expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	7,031	7,085
Payroll tax	1,233	1,377
Termination benefits	618	253
Personnel expenses from restructured operations	253	80
Voluntary medical insurance expenses	108	151
Past service cost (immediate recognition)	101	73
Personnel training expenses	32	44
Current service cost	19	20
Amortization of past service cost	18	18
Net actuarial loss recognised in period	6	68
TOTAL	9,419	9,169

The Group average headcount totaled 10,459 and 12,599 at 31 December 2010 and 31 December 2009 respectively.

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NOTE 25

Other operating expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Legal, consulting and data processing services	751	1,058
Rent payments	660	458
Trade and other receivables impairment loss/(gain)	616	(169)
Software expenses	401	207
Maintenance of non-core and social assets	295	431
Insurance expenses	270	319
Cession agreement	220	21
Loss on disposal of property, plant and equipment	137	122
Impairment loss on remeasurement of assets held for sale	123	-
Impairment loss on available-for-sale financial assets	72	-
Environmental payments	68	39
Safety arrangement and precautions	62	80
Bank services	60	281
Legal rights registration expenses	35	25
Impairment loss on inventory	-	80
Impairment loss on biological assets	-	496
Other miscellaneous	115	103
TOTAL	3,885	3,551

NOTE 26

Other operating income

	Year ended 31 December 2010	Year ended 31 December 2009
Fines and penalties from business contract	515	(215)
Subsidies on the difference in tariffs for sales to the urban population	454	374
Gain from disposal of assets held for sale	357	352
Effect of curtailment and settlement	94	279
Derecognition of revaluation of available-for-sale financial assets	24	-
Gain from disposal of available-for-sale financial assets	8	-
Other miscellaneous	122	57
TOTAL	1,574	847

Reimbursement from government of Moscow city represents cash paid to the Company to compensate the difference between tariffs set to the urban population and the tariffs of the Company.

NOTE 27

Financial income and expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Financial income		
Interest income on loans given	894	1,087
Foreign exchange gain	248	108
Interest income on bank deposits	237	34
Other interest income	1,049	245
TOTAL	2,428	1,474
Financial expenses		
Interest expenses on borrowings	(1,743)	(2,516)

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	Year ended 31 December 2010	Year ended 31 December 2009
Lease expenses	(72)	(171)
Interest on employee benefit obligations	(51)	(43)
Foreign exchange (loss)	(27)	(158)
Other interest expenses	(19)	(882)
TOTAL	(1,912)	(3,770)
Less capitalized interest expenses on borrowings related to qualifying assets (Note 3,7)	1,743	2,516
Net financial expenses recognised in profit or loss	(169)	(1,254)

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	2,180	1,366
Interest expenses	(91)	(1,053)
Net interest	2,089	313

Net interest result by categories of assets and liabilities

	Year ended 31 December 2010	Year ended 31 December 2009
Investments	1,733	1,129
Cash and cash equivalents	447	237
Liabilities carried at amortised cost	(91)	(1,053)
TOTAL	2,089	313

NOTE 28
Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the year ended 31 December 2009: 20%).

	Year ended 31 December 2010	Year ended 31 December 2009
Current tax (expense)		
Current year	(2,473)	(1,536)
Over provided in prior periods	23	328
Deferred tax (expense)		
Origination and reversal of temporary differences	120	623
Income tax (expense)	(2,330)	(585)

Reconciliation of effective tax rate is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	10,998	2,243
Income tax at applicable tax rate	(2,200)	(449)
Non-deductible / non-taxable items	(153)	(464)
Over provided in prior periods	23	328
Income tax (expense)	(2,330)	(585)

(b) Tax effects of components of other comprehensive income

	Year ended 31 December 2010			Year ended 31 December 2009		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Impairment loss on property, plant and equipment	(104)	21	(83)	(2,355)	471	(1,884)

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	Year ended 31 December 2010			Year ended 31 December 2009		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Derecognition of revaluation of available-for-sale financial assets	(24)	-	(24)	-	-	-
Revaluation of available-for-sale financial asset	-	-	-	(32)	(2)	30
TOTAL	(128)	21	(107)	(2,323)	469	(1,854)

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Property, plant and equipment	-	-	(24,765)	(25,343)	(24,765)	(25,343)
Assets classified as held for sale	-	-	(117)	(92)	(117)	(92)
Investment property	-	-	(54)	(49)	(54)	(49)
Trade and other receivables	32	202	-	-	32	202
Investments	-	128	-	-	-	128
Trade and other payables	128	158	-	-	128	158
Employee benefits	82	73	-	-	82	73
Provisions	14	56	-	-	14	56
Borrowings	-	-	(190)	(205)	(190)	(205)
Other	39	89	(44)	(33)	(5)	56
TOTAL	295	706	(25,170)	(26,722)	(24,875)	(25,016)

Movements in deferred income tax during the year ended 31 December 2009 and the year ended 31 December 2010 are as follows:

	31 December 2008	Recognised in income	Recognized in equity	Reclassification	31 December 2009
Property, plant and equipment	(25,705)	(336)	471	227	(25,343)
Assets classified as held for sale	-	417	-	(509)	(92)
Investment property	(656)	325	-	282	(49)
Trade and other receivables	(33)	235	-	-	202
Investments	-	128	-	-	128
Trade and other payables	114	44	-	-	158
Employee benefits	97	(24)	-	-	73
Provisions	51	5	-	-	56
Borrowings	(3)	(202)	-	-	(205)
Other	27	31	(2)	-	56
TOTAL	(26,108)	623	469	-	(25,016)

	31 December 2009	Recognised in income	Recognized in equity	Reclassification	31 December 2010
Property, plant and equipment	(25,343)	557	21	-	(24,765)
Assets classified as held for sale	(92)	(25)		-	(117)
Investment property	(49)	(5)	-	-	(54)
Trade and other receivables	202	(170)	-	-	32
Investments	128	(128)	-	-	-
Trade and other payables	158	(30)	-	-	128
Employee benefits	73	9	-	-	82
Provisions	56	(42)	-	-	14
Borrowings	(205)	15	-	-	(190)

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	31 December 2009	Recog-nised in income	Recog-nized in equity	Reclas-sifica-tion	31 December 2010
Other	56	(61)	-	-	(5)
TOTAL	(25,016)	120	21	-	(24,875)

NOTE 29

Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Issued shares	39,749,360	39,749,360
Effect of own shares held	(140,229)	(147,376)
Weighted average number of ordinary shares (thousands)	39,609,131	39,601,984

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,601,984
Profit for the year	8,668	1,658
Profit per ordinary share (basic and diluted) (in Russian Roubles)	0.22	0.04

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

NOTE 30

Financial instruments

(a) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2010	31 December 2009
Held-to-maturity investments	-	12,130
Investments (Note 11)	-	12,130
Loans and receivables	18,886	16,986
Trade and other receivables (Note 12)	18,886	16,986
Available-for-sale financial assets	13	256
Other non-current assets (Note 13)	13	256
Cash and cash equivalents (Note 14)	28,334	2,267
TOTAL FINANCIAL ASSETS	47,233	31,639

The maximum exposure to credit risk for receivables at the reporting date by type of sales was:

	Carrying amount	
	31 December 2010	31 December 2009
Electricity	3,777	3,988
Heat	11,408	9,644
Other	3,701	3,354
TOTAL	18,886	16,986

Debtors within two main classes of accounts receivable – electricity and heat – are quite homogenous regarding their credit quality and concentration of credit risk.

(in millions of Russian Roubles)

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

The most important customers of the Group, OJSC "MOEK" and CJSC "CFR" accounts for RR 7,707 million and RR 3,556 million, respectively, for the trade receivables carrying amount at 31 December 2010 (31 December 2009: RR 5,273 million and RR 3,407 million, respectively).

(ii) Impairment losses

The aging of trade and other receivables at the reporting date was:

	31 December 2010		31 December 2009	
	Gross	Impairment	Gross	Impairment
Not past due	14,469	-	11,133	-
Past due 0-30 days	2,333	-	2,917	-
Past due 31-120 days	402	-	349	-
Past due 121-365 days	1,600	-	1,400	-
More than one year	1,516	1,434	2,777	1,590
TOTAL	20,320	1,434	18,576	1,590

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2010	2009
Balance at 1 January	1,590	1,765
Impairment loss recognised/(reversed) during the period	616	(169)
Allowance used during the period	(772)	(6)
Balance at 31 December	1,434	1,590

The impairment allowance at 31 December 2010 of RR 1,434 million (31 December 2009: RR 1,590 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 365 days; 92.54 percent of the balance (at 31 December 2009: 85.02 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

(iii) Credit risk related to the Group's cash in banks

All bank balances are neither past due nor impaired. Analysis by credit quality of bank balances is as follows:

Name of the bank	Rating agency	Rating	31 December 2010	Rating	31 December 2009
OJSC Bank "VTB"	Fitch Ratings	AAA (rus)	13,260	AAA (rus)	-
OJSC "Gazprombank"	Standard & Poor's	ruAA	8,478	ruAA	1,543
OJSC "AB "Russia"	Moody's Interfax	Baa1.ru	3,084	Aa3.ru	262
OJSC "Alfa-Bank"	Fitch Ratings	AA-(rus)	3,507	A+(rus)	29
OJSC "Bank of Moscow"	Fitch Ratings	AA+(rus)	-	AA+(rus)	382
Other	-	-	5	-	51
TOTAL			28,334		2,267

The Company pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

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(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2010:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	2,334	4,234	174	351	678	663	451	259	1,658
Unsecured bond issues	14,412	16,559	727	5,356	10,476	-	-	-	-
Trade and other payables	12,786	12,786	12,786	-	-	-	-	-	-
TOTAL	29,532	33,579	13,687	5,707	11,154	663	451	259	1,658

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2009:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	2,263	4,049	71	72	499	656	773	410	1,568
Unsecured bond issues	16,412	20,240	841	2,841	6,082	10,476	-	-	-
Notes	90	95	-	95	-	-	-	-	-
Trade and other payables	11,733	11,733	11,733	-	-	-	-	-	-
TOTAL	30,498	36,117	12,645	3,008	6,581	11,132	773	410	1,568

All of the Group’s financial liabilities are carried at amortized cost.

(c) Currency risk

(i) Exposure to currency risk

	31 December 2010 EURO-denominated	31 December 2009 EURO-denominated
Unsecured bank loans	(2,334)	(2,263)
Gross balance sheet exposure	(2,334)	(2,263)
Estimated forecasted interest expenses	(73)	(11)
Gross exposure	(73)	(11)
Net exposure	(2,407)	(2,274)

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
EURO 1	40.2980	44.1299	40.3331	43.3883

(ii) Sensitivity analysis

A 9% strengthening of the RR against EUR at 31 December 2010 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2009.

	31 December 2010	31 December 2009
EURO	209	198

A 9% weakening of the RR against the EUR at 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual decrease in the average exchange rates for the year ended 31 December 2010 was approximately 9% for the EURO (31 December 2009: 21 %), although the difference between the two actual extremes in the reported period was approximately 16% (31 December 2009: 14%).

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(d) Interest rate risk

(i) Profile
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	31 December 2010	31 December 2009
Fixed rate instruments		
Financial assets (Note 11, 12, 13 and 14)	47,233	31,639
Financial liabilities (Note 16,18)	(28,068)	(29,252)
TOTAL	19,165	2,387
Variable rate instruments		
Financial liabilities (Note 16)	(1,464)	(1,246)
TOTAL	(1,464)	(1,246)

(ii) Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(iii) Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2009.

	31 December 2010		31 December 2009	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(30.2)	30.2	(77.8)	77.8
Cash flow sensitivity (net)	(30.2)	30.2	(77.8)	77.8

(e) Fair values
The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments (Note 11)	-	-	12,130	12,130
Trade and other receivables (Note 12)	18,886	18,886	16,986	16,986
Available-for-sale financial assets (Note 13)	13	13	256	256
Cash and cash equivalents (Note 14)	28,334	28,334	2,267	2,267
Unsecured bank loans (Note 16)	(2,334)	(2,334)	(2,263)	(2,263)
Unsecured bond issues (Note 16)	(14,412)	(14,951)	(16,412)	(16,612)
Notes (Note 16)	-	-	(90)	(90)
Trade and other payables (Note 18)	(12,786)	(12,786)	(11,733)	(11,733)

The basis for determining fair values is disclosed in Note 4.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus credit spread, were as follows:

	31 December 2010	31 December 2009
Borrowings	12.1	13.1

NOTE 31
Leases

(a) Operating leases
Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the year ended 31 December 2010 and the year ended 31 December 2009 operating lease expenses in amount of RR 660 million and RR 458 million respectively were recognised in profit or loss.

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Non-cancellable operating lease rentals are payable as follows:

	31 December 2010	31 December 2009
Less than one year	383	366
Between one and five years	1,444	1,363
More than five years	8,644	8,619
TOTAL	10,471	10,348

(b) Finance leases

Finance lease rentals are payable as follows (see Note 7):

	31 December 2010			31 December 2009		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	127	25	102	297	77	220
Between one and five years	24	5	19	122	19	103
More than five years	-	-	-	-	-	-
TOTAL	151	30	121	419	96	323

The imputed finance expense on the liability was determined based on Group's incremental borrowing rate (3%).

NOTE 32

Commitments and contingencies

(a) Capital commitments

At 31 December 2010 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 13,376 million (at 31 December 2009: RR 13,643 million.). The amount includes Capacity Supply Contracts capital commitments for the amount RR 6,483 million (at 31 December 2009: RR 0 million).

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant underscored liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(d) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.

(in millions of Russian Roubles)

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 208 million as of 31 December 2010 (31 December 2009: RR 296 million).

NOTE 33
Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Chief Executive Officer. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-maker assesses the operating performance of these individual power generating units based on their gross margin which is calculated as revenue less directly attributable costs. Interest income and expenditure are not allocated to this measure as these are central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernized and unmodernized power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales, agricultural products, and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the "all other segments" column.

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated balance sheet assets.

(a) Segment information

The segment information for the year ended 31 December 2010 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	78,862	62,307	4,129	145,298
Expenses:					
Fuel and water usage expenses	22	(71,341)	-	-	(71,341)
Purchase heat	22	-	(683)	-	(683)
Purchase electricity	22	(6,429)	-	-	(6,429)
Heat transmission		-	(24,469)	-	(24,469)
Gross margin		1,092	37,155	4,129	42,376
Segment assets		214,503	21,999	19,130	255,632

The segment information for the year ended 31 December 2009 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	61,559	47,508	3,569	112,636
Expenses:					
Fuel and water usage expenses	22	(52,678)	-	-	(52,678)
Purchase heat	22	-	(319)	-	(319)
Purchase electricity	22	(4,860)	-	-	(4,860)
Heat transmission		-	(18,260)	-	(18,260)
Gross margin		4,021	28,929	3,569	36,519
Segment assets		196,005	19,953	33,843	249,801

The segment assets include impairment loss recognised for property, plant and equipment and investment property for the period ended 31 December 2010 in total amount RR 83 million which was allocated to electricity segment (as at 31 December 2009 RR 4,608 million which was allocated to electricity segment in amount of RR 4,468 million and to all other segments in amount of RR 140 million).

(in millions of Russian Roubles)

A reconciliation of adjusted gross margin to profit before tax provided as follows:

	Note	31 December 2010	31 December 2009
Gross margin for reportable segments		38,247	32,950
Other segments gross margin		4,129	3,569
Financial income	27	2,428	1,474
Other operating income	26	1,574	847
Gain on withdrawal from subsidiary	9	861	-
Income/(loss) from change in fair value of investment property	8	21	(1,623)
Gain on withdrawal from equity accounted investee		-	124
Depreciation of property, plant and equipment	7	(12,214)	(11,705)
Personnel expenses	24	(9,419)	(9,169)
Maintenance and repairs expenses		(4,281)	(3,009)
Other operating expenses	25	(3,885)	(3,551)
Taxes other than income tax		(2,571)	(2,563)
Other external supplies	23	(2,524)	(2,478)
Other materials expenses	22	(1,199)	(739)
Financial expenses	27	(169)	(1,254)
Impairment loss of property, plant and equipment		-	(630)
Profit before income tax		10,998	2,243

(b) Reportable segments' assets

The amounts provided to the decision makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Note	31 December 2010	31 December 2009
Segment assets		255,632	249,801
Unallocated:			
Income tax receivables		17	320
Available-for-sale investments	13	13	256
Taxes other than income tax prepaid	12	39	55
Total assets per consolidated statement of financial position		255,701	250,432

(c) Information about major customers

During the year ended 31 December 2010 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2010 amounted RR 52,823 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2010 amounted to RR 41,507 million. The revenue was obtained from sales of heat relating to heat segment..
- Revenue from OJSC "Mosenergosbyt" for the year ended 31 December 2010 amounted to RR 22,829 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

During the year ended 31 December 2009 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2009 amounted to RR 27,580 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2009 amounted to RR 31,246 million, respectively. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the year ended 31 December 2009 amounted to RR 30,271 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

Glossary

BoD	Board of Directors
CCP	Combined Cycle Plant
CJSC	Closed Joint Stock Company
FAS	Federal Anti-monopoly Servise
FCCMS	Federal Committee for Capital Market and Securities
FFMS	Federal Financial Market Service
FTS	Federal Tariff Service
IFRS	International Financial Reporting Standards
LLC	Limited Liability Company
MICEX	Moscow Interbank Currency Exchange
MOEK	Moscow United Energy Company
NPP	Nuclear Power Plant
o.e.	oil equivalent
OGK	Generating Company of a wholesale electricity market
OJSC	Open Joint Stock Company
PSHS	Pumped Storag Hydro Station
RAS	Russian Accounting Standards
RTS	Russian Trade System (stock exchange)
SDPP	State-owned District Power Plant
SGU	Steam and Gas Unit
SO UES	System Operator of the Unified Energy System
SPP	State-owned Power Plant
ST	Steam turbine
TGK	Territorial Generating Company
TPP	Thermal Power Plant
UES	Unified Energy System (grid)
VAT	Value Added Tax

MEASUREMENT UNIT

Gcal– Giga calorie, unit of measurement of heat
Gcal/h – Giga calorie, unit of measurement of thermal power
kV – kilo Volt , unit of measurement of electric potential
kWh– kilo Watt hour , unit of measurement of electric energy
MW – Mega Watt, unit of measurement of electric power

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