

Towards light, warmth  
and friendly environment



# MOSENERGO

[ANNUAL REPORT]

# 2006

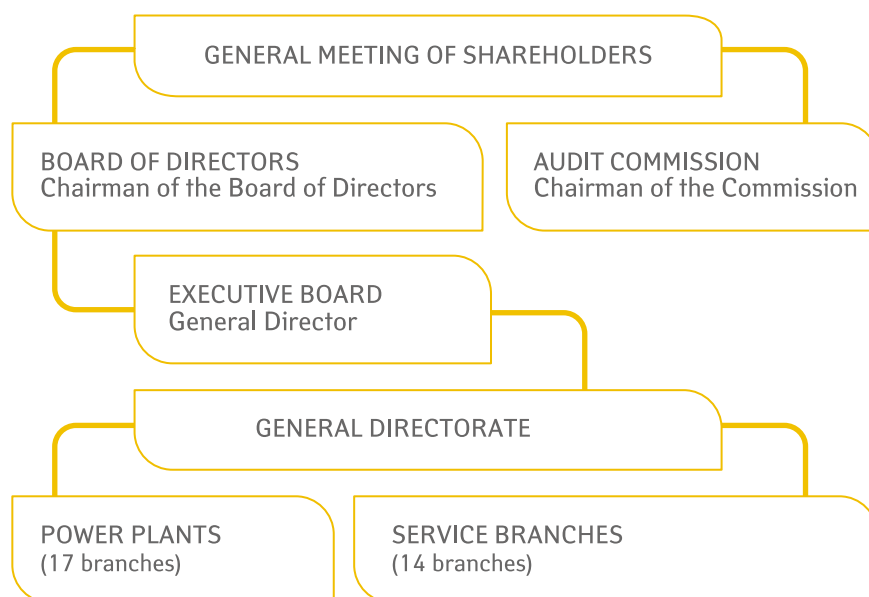
## MOSENERGO'S MISSION

MOSENERGO's mission consists in providing consumers with electrical and thermal power generated using resource-saving advanced technologies and equipment that meets the highest standards, and in securing a fair income to the shareholders of the Company

## MOSENERGO's Strategic Objective

To come through the process of restructuring of the Russia's energy sector as a leader at the energy market of the Moscow area, to rank quoteworthy at the wholesale electricity market of Russia, and to increase shareholders' equity (to attain the highest economic and social benefits)

## MOSENERGO Structure



- P.G. Smidovich TEP-1
- R.E. Classon LAPS-3
- TEP-6
- TEP-8
- TEP-9
- M.Ya. Ufaev TEP-11
- TEP-12
- TEP-16
- TEP-17
- TEP-20
- TEP-21
- TEP-22
- TEP-23
- TEP-25
- TEP-26
- TEP-27
- TEP-28

- APK Shatursky
- Avtokhozyaistvo
- Central Mechanical Repair Works
- Energosvyaz
- Energotorg
- Experimental Plant for Automation Means and Devices
- Industrial-Technological Completing Enterprise
- Information-Computing Center
- Moselektroremenergo
- Mosenergonaladka
- Mosenergoprojekt
- Mosenergospetsremont
- Special Construction-Technological Bureau for High-Voltage and Cryogenic Technology
- Teplosbyt

## MOSENERGO Today

MOSENERGO is the largest regional power company of the Russian Federation and is essentially an indispensable integral part of the Unified Energy System of Russia.

MOSENERGO's core businesses are electric energy and power generation and supply to the wholesale market, heat generation, sales of heat for ultimate consumers of Moscow and the Moscow Region.

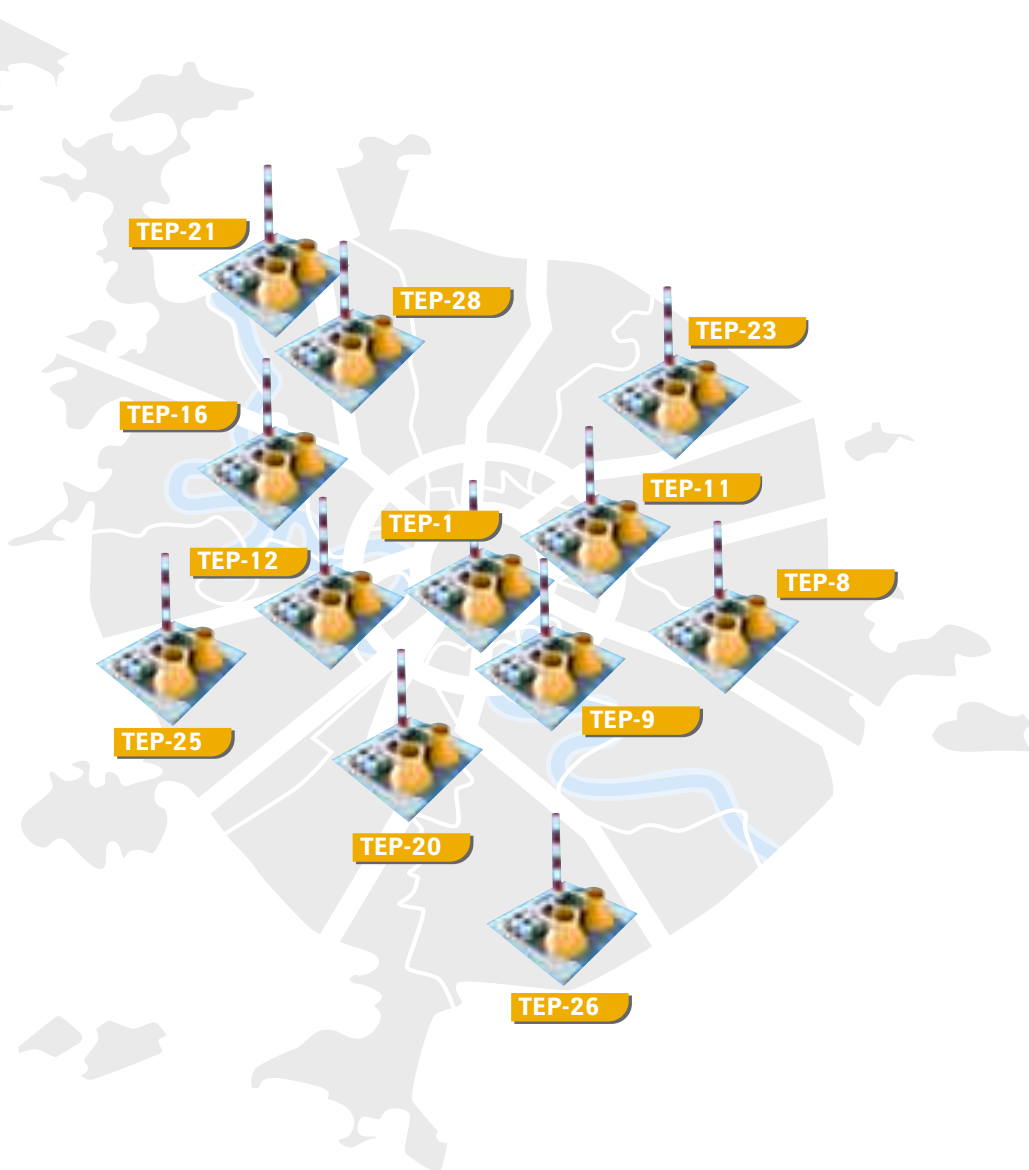
MOSENERGO incorporates 31 branches, among which are 17 power plants generating energy and power, having a common operation mode and relying on a shared capacity reserve and a centralized operational and dispatching control system.

All power plants of the Company are co-generators.

The Company's installed electrical capacity is 10.7 thousand MW, and installed thermal capacity - 39.9 thousand MW.

Along with the power plants, the power utility's operation is supported by 14 branches engaged in production, designing, maintenance, setup and other operations.

### MOSENERGO Generating Facilities in Moscow

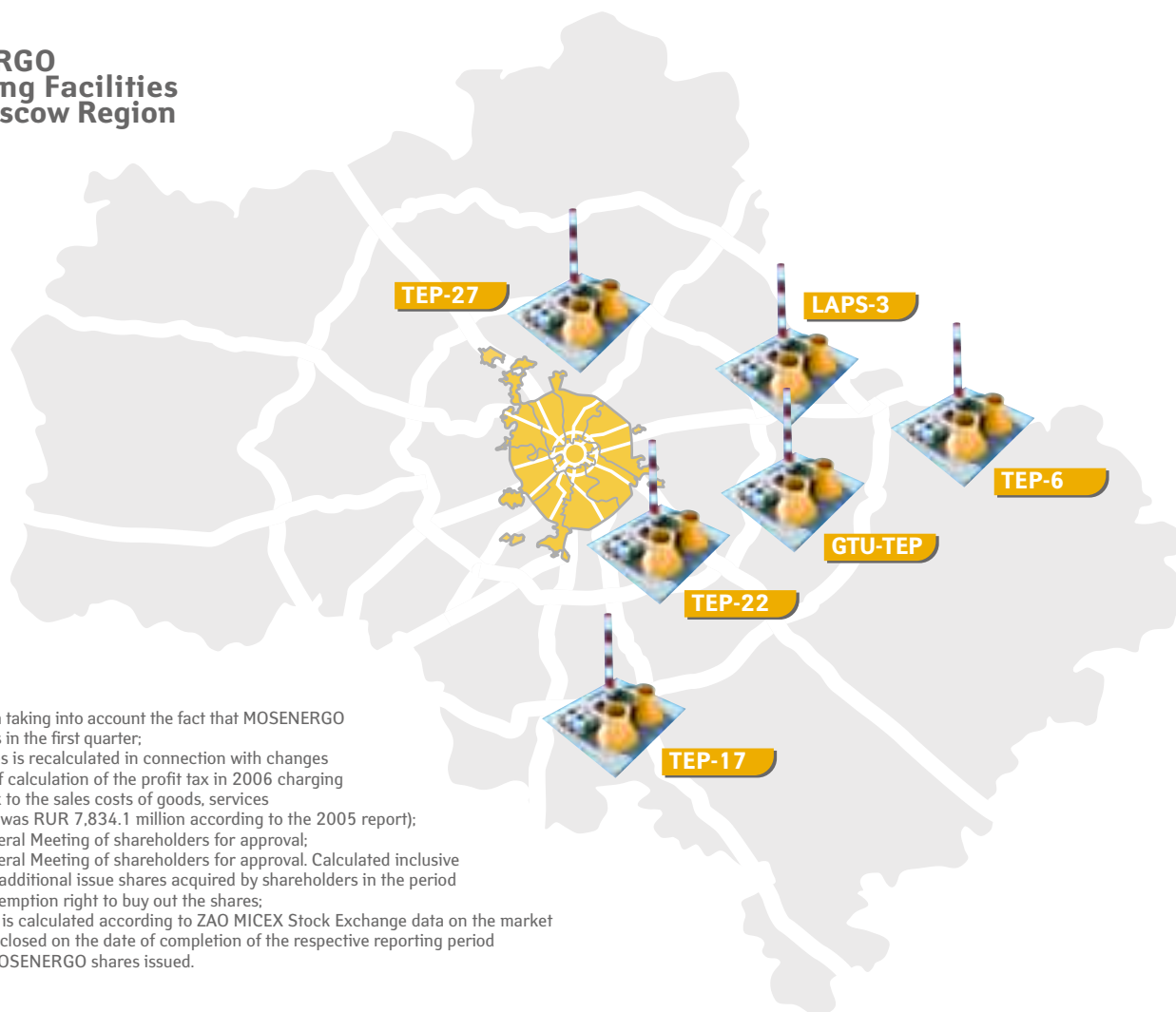


## MOSENERGO Numerically

Key performance indicators	UOM	2005 <sup>1</sup>	2006
Installed electrical capacity	MW	10,611.1	10,677.3
Electricity generation	kWh bln	64.8	64.4
Installed thermal capacity	Gcal/h	34,174.0	34,289.4
Heat generation	Gcal mln	70.7	70.2
Payroll	Pers	18,951	17,814

Basic financial and economic indicators	UOM	2005 <sup>1</sup>	2006
Assets	RUR mln	54,526.9	69,220.1
Shareholders' equity	RUR mln	38,618.4	39,683.0
Proceeds from sales of products	RUR mln	71,010.1	70,267.4
Profit on sales	RUR mln	6,755.4 <sup>2</sup>	4,983.6
Pre-tax profit	RUR mln	3,155.7	2,992.6
Net profit	RUR mln	2,081.9	1,523.7
Earnings per share	RUR	0.074	0.054
Accrued dividends	RUR mln	454.0	600.0 <sup>3</sup>
Dividends per share	RUR	0.01607	0.02116 <sup>4</sup>
Market capitalization <sup>5</sup>	RUR bln	116.4	148.8

### MOSENERGO Generating Facilities in the Moscow Region



1 data for 2005 is given taking into account the fact that MOSENERGO operated 61 branches in the first quarter;

2 profit from 2005 sales is recalculated in connection with changes in the methodology of calculation of the profit tax in 2006 charging the amount of the tax to the sales costs of goods, services (the profit from sales was RUR 7,834.1 million according to the 2005 report);

3 submitted to the General Meeting of shareholders for approval;

4 submitted to the General Meeting of shareholders for approval. Calculated inclusive of the number of the additional issue shares acquired by shareholders in the period of exercise of the preemption right to buy out the shares;

5 market capitalization is calculated according to ZAO MICEX Stock Exchange data on the market price per share as disclosed on the date of completion of the respective reporting period and the number of MOSENERGO shares issued.

## **It's time to act!**

Dynamic economic development of Russia and, in particular, of the Moscow area in recent years caused an unprecedented growth of demand for electricity and heat.

Today Moscow and the Moscow Region vigorously construct housing estates and service rendering enterprises, cultural, entertainment and sports facilities, office and shopping centers.

New manufacturing enterprises and industrial parks emerge. New up-to-date and effective transport infrastructure is developed.

The plans include formation of large interchange stations using the facilities of airports located near Moscow, development of the network of highways and railways, creation of robust logistics centers.

Should the trends of recent years prevail, the Moscow area electricity demand will have doubled already by 2020. This offers a challenge of ensuring a reliable electricity supply service capable of meeting the growing demand and, at the same time, affords an unrivalled opportunity for expansion of our energy generation business.

The 2006 annual report of MOSENERGO was approved by MOSENERGO's Board of Directors on March 26, 2006 and submitted to the Annual General Meeting of MOSENERGO Shareholders for approval on May 15, 2007

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see the indicated page of the Annual Report



see the indicated page of MOSENERGO web-site at [www.mosenergo.ru](http://www.mosenergo.ru)

**[www.mosenergo.ru](http://www.mosenergo.ru)**

Internet version of the Annual Report is placed in “To Our Shareholders and Investors” section of the web-site

## ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



### **Dear shareholders,**

The year 2006 opened a new stage of development for the Moscow Energy System. A vigorous economic growth of the Moscow area boosts the energy demand which has exceeded Russia's average. MOSENERGO's development strategy meets today's challenges.

On May 25, 2006, RAO UES of Russia, Moscow Government and MOSENERGO signed an agreement for development of the Moscow area energy economy.

Our Company was among the first Russian companies to enter upon a large-scale construction of generating facilities based on combined-cycle technologies.

In pursuing the Program for Development and Technical Retooling for 2006-2010, MOSENERGO will be able to fully satisfy the energy demand of the expanding Moscow and regional economy.

With that, the Company still sees it as its first priority the ensuring of reliable operation of power plants equipment, proper and efficient discharge of electricity and heat supply contracts.

The Board of Directors of MOSENERGO in 2006 looked after the interests of the Company shareholders, defined the development priorities, and designated targets in the Company's activities in the long run. During the period under report, the Board of Directors held 31 meetings.



## ■ ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

As elected by shareholders on May 26, 2006, the Board of Directors includes representatives of RAO UES of Russia, Moscow Government, Gazprom Group, as well as MOSENERGO managers. Eight of the thirteen members of the Board of Directors are independent directors, and that allows tackling paramount tasks of the Company's operation with a view to securing the interests of all shareholder groups.

Supervision of the financial and business operations of the Company on the part of shareholders' representatives is provided by the Audit Committee of MOSENERGO's Board of Directors.

The strengthening of the role of shareholders in decision-making is provided by the Human Resources and Remuneration Committee of the Board of Directors.

The Reliability Committee of the Board of Directors examines investment and maintenance programs, and actions based on the results of accident and process upset investigation from the viewpoint of assuring the integrated reliability requirements.

In 2006, the points of first priority in the work of the Board of Directors were the issues of MOSENERGO development in 2006-2010 based on the Company's own generation in the Moscow area, which is the most reliable and economically sound way of energy supply in view of a growing electric demand in Moscow and the Moscow Region.

The main focus was on the preparation of the Company for fall and winter load peaks in 2006/2007. The Program for Implementation of the Environmental Policy of the Company for 2006-2008 was approved.

At the turn of November, the Board of Directors approved the MOSENERGO Executive Board's proposal on revaluation of the Company's fixed assets as of 1 January 2007.

In the course of the year, the Company placed a bond loan which generated RUR 10.0 billion committed to refinancing of short-term credits.

Placement of the bonded loan allowed improving the Company's indices of liquidity, decreasing the cost of servicing of credits and loans, as well as affected favorably the international credit rating of MOSENERGO: Standard & Poor's upgraded international credit rating of MOSENERGO from "B-" to "B". The rating variation forecast is "Positive".

Reorganization that MOSENERGO underwent in 2004-2005 created conditions for successful attraction of investments, including by way of an additional issue of shares.

In October, the Board of Directors of RAO UES of Russia approved private offering of additional MOSENERGO shares to Gazprom Group in 2007.

An extraordinary general meeting of the Company's shareholders held in the form of an absentee voting on December 20, 2006, resolved to increase the Company's charter capital by RUR 11.5 billion and to approve an additional issue of the Company shares in the amount of 11.5 billion shares accordingly.

In the course of the additional issue of its shares, MOSENERGO intends to attract at least \$2.1 bn of investments for construction of new generating facilities of the Company.

To summarize the work done by MOSENERGO's Board of Directors in 2006, it can be stated that its decisions on such issues as strategic lines of activities and day-to-day management of the Company proved effective.

The Company plans include attraction of large-scale investments, mastering of new high technologies of electricity and heat generation, commissioning of over 2.4 thousand MW of generating facilities by 2010.

I am sure that MOSENERGO team distinguished by high professionalism, responsibility and creative potential is capable of accomplishing its most challenging tasks with dignity.

Chairman of the Board of Directors  
MOSENERGO



Yu.A. Udaltsov

## ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD



### **Dear shareholders,**

We present for your attention a report on MOSENERGO performance in 2006. The past year for the Company was marked by making a number of key decisions on attraction of investments and commencement of implementation of a large-scale program for construction of new generation facilities.

In September 2006, MOSENERGO went on to operation under a new model of the wholesale and retail markets of electric energy and power.

The Company maintains strong positions in the sphere of sales of electricity and heat. Energy sales in 2006 totaled RUR 70.3 billion with the net profit scoring RUR 1.5 billion.

MOSENERGO, as a generator, dealt successfully with its primary task – reliable operation of power plants to meet the Moscow's and Moscow Region's electricity and heat demand.

In the last ten days of January and the first ten days of February, when the temperature dropped 15-20°C below the estimated level, the Moscow power system recorded the absolute peak in consumption. With a view to ensuring stability of the power system, MOSENERGO imposed the power mobilization regime at its power plants, as well as augmented electricity generation and simultaneously increased deliveries of heat. Under conditions of anomalous frosts and record-breaking loads highly skilled specialists of the Company provided for the reliable performance of all generating facilities and allowed no interruption in supplying the Moscow area with light and heat.

The area economy develops rapidly: new dwelling and office complexes, shopping and leisure centers spring up; transport and communications infrastructure, all forms of communication and information techniques expand; the solvent demand for electricity on the part of individuals and organizations grows. In this connection, the Moscow area requires more and more electricity and heat, and our Company has put forth a consistent effort to build up its power budget in order to meet such requirements for the account of enabling gas-saving technologies. The gain in generation of electrical energy is accompanied by a productivity enhancement and gas saving at a level of 25%.

In 2006, the newly commissioned capacities reached 166.2 MW. An accelerated construction of the Moscow power system's first combined-cycle power units is underway at TEP-21 and TEP-27. TEP-26 in collaboration with Alstom group of companies keeps on preparing for construction the most potent in Russia combined-cycle power unit with 59% efficiency ratio.

MOSENERGO today is capable of supporting the entire generation cycle (engineering – designing – construction – setting-up – repair) single-handed. A designing/building complex created in MOSENERGO administers to all development needs of the Moscow power system.

Our investment program for 2006-2010 contemplates expansion of the Company's generating capacities by 2.4 thousand MW, including by 2.2 thousand MW through construction of new facilities. At the same time, the 10 kV main switchgears at the power plants undergo rebuilding (construction) to augment the connected load capacity of the consumers by 0.4 thousand MW.

In 2006, MOSENERGO invested RUR 14.7 billion in the capacity building and retrofitting of the operating power plants, as well as in technical retooling and modernization of its production facilities. In 2007, this amount will more than double.

In the reporting year, we scored good results in all areas of our activities offering a hopeful prospect for the Company development. These include completion of the repair program, introduction of innovative science and technology, personnel training and development, social sphere, perfection of methods and forms of corporate governance.

All scheduled works in preparation for the heating season were completed exactly as scheduled. In early November, all 17 power plants and a number of other MOSENERGO branches obtained their certificates of preparedness issued on the results of inspections by a joint committee of RAO UES of Russia, Rostekhnadzor and EMERCOM of Russia, which attested to a high level of technical preparedness of the Company and personnel for fall/winter peak loads.

Implementation of a large-scale Company development program requires mobilization of all internal reserves, as well as attraction of additional funds and resources. Our work with Russian and foreign investors continued. Under an agreement with the European Bank for Reconstruction and Development, MOSENERGO received a long-term credit in the amount of USD 250 million. The money were channeled to technical upgrading and renovation, i.e. to improve operational reliability of the equipment.

Aside from that, for attracting investments for its capital construction, the Company prepared for an additional issue of its shares planned for 2007.

The Company's motto, "Towards light, warmth, and friendly environment!", represents our concern for people. This day, electric power plants integrated with MOSENERGO make up the largest industrial complex in Moscow. With that, the Company operates within the confines of the environmental standards and regularly improves environmental measures. In 2006, the ecological management of MOSENERGO for the first time in the history of the Russia's energy sector obtained the ISO 14001:2004 certificate.

The certification was carried out within the framework of the Program for Implementation of the Environmental Policy of the Company for 2006-2008 which provides for a number of measures to reduce pollutant emissions of power plants. I would like to emphasize that this is the work that has been carried on since the past years.

An inseparable part of the current and future business of the Company is to improve social welfare of its employees and their family members. This is our compelling stand. MOSENERGO's main strength lies in the highly professional personnel and their ability for continuous self-improvement, for mastering the new world and domestic experience, and for an initiative solution of increasingly complicated tasks.

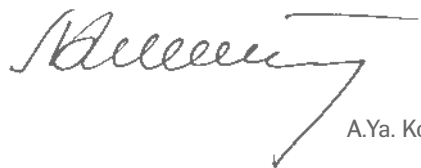
Charitable programs remain part and parcel of the Company's corporate policy. MOSENERGO considers it to be its duty and honor commitment to give support to the Russian culture, education, sports.

MOSENERGO's management promptly informs shareholders and prospective investors about the results of the Company's industrial and economic activities. Positive trends in the economic development, public awareness and transparency of our activities bespeak of high standards of corporate governance. In 2006, INSAM, the Supreme Institute of Business and Management, awarded a Gold Medal for a high level of corporate governance to MOSENERGO.

This year we are faced with a strenuous work on an accelerated construction of new generating facilities. Already by the end of 2007, we plan to have placed in operation the first combined-cycle power unit with a capacity of 450 MW at TEP-27. The unprecedented for Russia speed of the capacity building is provided through a high cohesiveness in work and resources management within the framework of MOSENERGO's unified designing/building complex created in 2006. Coordination of efforts of designers, builders and management of power plants makes it possible to achieve a substantial resource saving. And this is a tangible competitive advantage of MOSENERGO over other generation companies.

The Company will endeavor best efforts for exact execution of the production program, as well as for fulfillment of necessary work in order to prepare for the 2007/2008 fall/winter seasons, which will foster consolidation of MOSENERGO's position as a leader among Russian generation companies, and one of the leading industrial enterprises in Russia.

Chairman of the Executive Board



A.Ya. Kopsov

## The year 2006. EVENTS AND FACTS

### January-February

New heat tariffs for the Moscow and Moscow Region consumers were put into practice as from January 1, 2006, under the resolutions of the Regional Energy Commission of Moscow and the Energy Committee of the Moscow Region<sup>1</sup>.

On January 20, the Moscow power system recorded the absolute peak in consumption, 16,840 MW, at a mean daily outside temperature of minus 26.7°C.

With a view to ensuring stability of the power system, MOSENERGO imposed the power mobilization regime at its power plants in January and February. All power plants formed facility management headquarters. MOSENERGO's control headquarters daily held its meetings for coordination of power plants operation at low ambient temperatures.

MOSENERGO provided the city with more than 600 MW of supplementary power, thus contributing to stabilization of the energy system during peak demand periods. The action taken made it possible to escape grave failures in operation of the equipment and to ensure reliable power supply of Moscow and Moscow Region consumers.

### March

On March 2, MOSENERGO placed a ruble bond loan. The issue totaled RUR 5 billion with the 7.65% rate and the maturity of 10 years. MOSENERGO's bonded loan is designed to refinance the Company's debt instruments and to optimize its financial activities. The issue was sponsored by JSB Gazprombank (CJCS).

March 14 saw MOSENERGO's exposition at the "Electric Power Industry of Russia - 2006" exhibition opened. MOSENERGO presented its Program for Development and Technical Retooling of the Moscow Energy System for the period of 2006-2020 developed by specialists of MOSENERGO, Moscow Government and the Russian Academy of Sciences.

On March 16, MOSENERGO held a solemn ceremony at TEP-21 to mark the beginning of construction of a new combined-cycle power unit with an electric capacity of 450 MW and a thermal capacity of 300 Gcal/h. Chairman of the Executive Board of RAO UES of Russia A.B. Chubais and Moscow mayor Yu.M. Luzhkov took part in the ceremony.

### May

On May 25 in MOSENERGO office, RAO UES of Russia and the Government of Moscow signed an Agreement for Cooperation in Implementation of the Joint Priority Action Program for Construction and Refurbishment of Electric Power Facilities in Moscow in order to preclude capacity deficiency and to improve the reliability of electricity supply to consumers.

On May 26, the town of Dzerzhinsky, Moscow Region, hosted the annual General Meeting of MOSENERGO shareholders<sup>2</sup>.

### July


On July 7, INSAM, the Supreme Institute of Business and Management, awarded a Gold Medal for a high level of corporate governance to MOSENERGO. In the eyes of the council of experts, positive trends in economic development of the Company, improvement of public awareness and transparency of its activities bespeak of high standards of corporate governance in the Company.

On July 17, based on a resolution of a visiting session with the participation of A.Ya. Kopsov, MOSENERGO General Director, and A.D. Keller, Head of the Shatura District Administration, Moscow Region, held on July 5 at the planned construction site of the Petrovskaya LAPS, a Directorate for Construction of the Petrovskaya LAPS was established by MOSENERGO order. Construction of the Petrovskaya LAPS is the largest project to be implemented within the framework of the Program for Development and Technical Retooling of MOSENERGO for 2006-2020. The installed capacity of the electric power plant is planned to be 4.0 thousand MW.

### August

On August 28, the Board of Directors of MOSENERGO approved awarding a contract of sale and delivery of packaged technological equipment, including steam turbines, as well as rendering of related services to the CCP-450-T power unit at TEP-27, to ZIOMAR Engineering Company. The power unit commissioning is scheduled for the 4th quarter of 2007.

 <sup>1</sup> p. 89

 <sup>2</sup> p. 158

## September

On September 19, MOSENERGO placed a ruble bond loan. The issue totaled RUR 5 billion, and the repayment period is 5 years.

On September 20, Standard & Poor's upgraded international credit rating of MOSENERGO from "B-" to "B", and the Russian rating of the Company was upgraded from ruBBB+ to ruA-. The recommendation for acquisition of shares is affirmative.

## October

On October 27, the Board of Directors of RAO UES of Russia, the principal shareholder of MOSENERGO, approved private offering of additional MOSENERGO shares to Gazprom Group.

On October 31, ALSTOM Ltd and EMalliance declared successful tenders for celebration of a general contractor turnkey contract for construction of a 420 MW combined-cycle power unit No. 8 at TEP-26, MOSENERGO. The power unit will become the up-to-the-minute and the most effective CCGT power unit in Russia. The power unit commissioning is scheduled for 2008.

## November

On November 1, MOSENERGO and all its branches received the Certificates of Preparedness for 2006/2007 fall-winter peak loads.

On November 15, the Moscow Region Government and RAO UES of Russia signed an Agreement for Cooperation in Development of the Electric Power System of the Moscow Region in order to prevent capacity deficiency and to provide for secure electricity supply to consumers.

November 26 saw commissioning tests and adjustment work commenced at new turbine-generator sets at TEP-1, LAPS-3, and TEP-21 with a total installed electric capacity of over 160 MW.

## December

On December 11, a gas turbine with an installed capacity of 31.2 MW was put into operation at the Electrostal GTU-TEP plant of MOSENERGO.

On December 15, MOSENERGO General Director A.Ya. Kopsov, Alstom President P. Crone and EMalliance General Director O.P. Golikov signed a general contractor contract for construction of combined-cycle power unit No. 8 at TEP-26, a MOSENERGO branch. The French Ambassador to Russia took part in the signing ceremony.

On December 20, an Extraordinary General Meeting of MOSENERGO shareholders approved an increase of the Company's charter capital by way of an additional issue of shares for the benefit of the strategic investor<sup>1</sup>. MOSENERGO shareholders approved the limit size of 11.5 billion authorized ordinary shares of the Company, amendments to the Company's Charter relating to the change in the number of the authorized shares, gave their assent to the distribution of the additional issue of shares for the benefit of OAO Gazprom and/or other Gazprom affiliated persons.



**March 16.** MOSENERGO held a solemn ceremony at TEP-21 to mark the beginning of construction of a new power unit. Chairman of the Executive Board of RAO UES of Russia A.B. Chubais and Moscow mayor Yu.M. Luzhkov took part in the ceremony.



**May 25.** In MOSENERGO office, RAO UES of Russia and the Government of Moscow signed an Agreement for Co-operation.

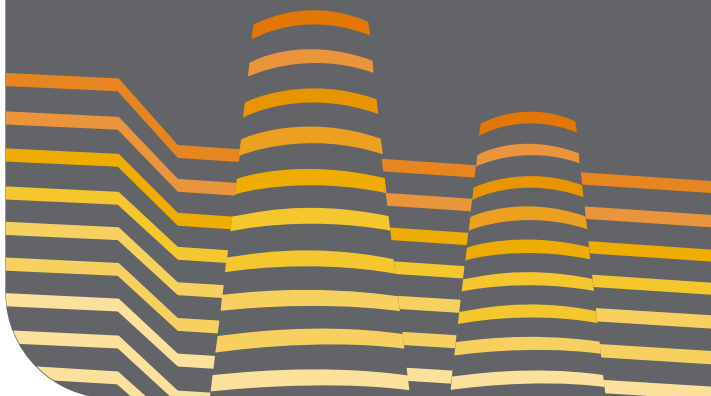


**December 15.** MOSENERGO General Director A.Ya. Kopsov, Alstom President P. Crone and EMalliance General Director O.P. Golikov signed a general contractor contract for construction of combined-cycle power unit No. 8 at TEP-26.

■ <sup>1</sup> p. 161

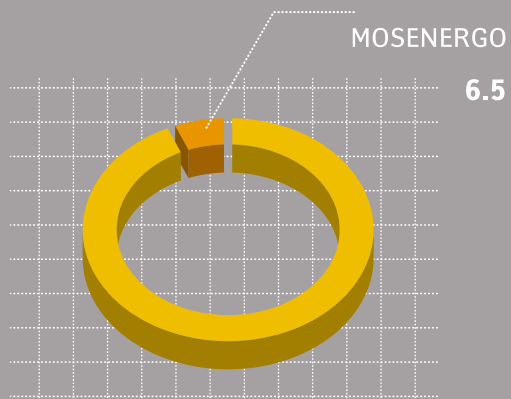
# MACROECONOMIC AND SECTOR ENVIRONMENT

# 1

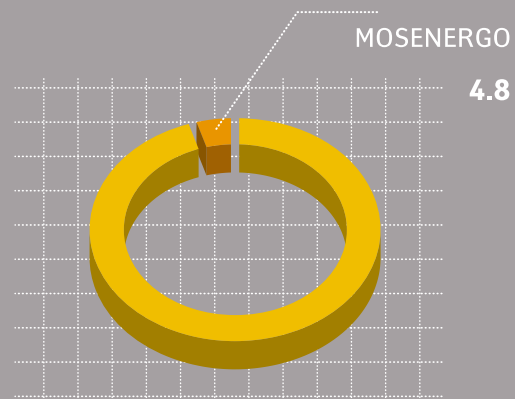


In 2006, electricity consumption in the Moscow area increased to **89,6** billion kWh

MOSENERGO's Weight in Gross Russia's Electricity Generation in 2006, %



MOSENERGO's Weight in Gross Russia's Heat Generation in 2006, %





## 1.1. MOSENERGO in the Country, Region, and Industry

According to the Federal State Statistic Service (Rosstat), Russia's GDP edged up 6.7% in 2006, and 6.4% – in 2005.

Production output in industry rose by 3.9% year on year (4.0% in 2005). In 2006, electricity generation in Russia came up 4.0% (2.1% in 2005), and electricity consumption increased by 4.2%, twice as high as the prediction (1.7% in 2005).

Last year, inflation in Russia ran at 9.0% with the budget target being 8.5%. Prices climbed 10.4% in the production sector and 10.3% in the electric power industry.

Real cash incomes of the population (inflation-adjusted) at the year-end of 2006 were 12.5% up vis-a-vis 2005, including a 13.4% growth in real earnings and a 2.7% rise in pensions.

The volume of Russia's capital investments in 2006 ramped up by 13.5% (10.7% in 2005).

A stable surplus has been secured in the public sector, and Russia is paying its external debts. In 2006, Standard&Poor's upgraded Russia's credit rating (financial system reliability index) from BBB+ to the A-investment level. Its rating fluctuation prospects are considered as Stable.

The city of Moscow and the Moscow Region are two independent constituent members of the Russian Federation. Together they form the Moscow metropolitan area, whose development rates drastically surpass the Russia wide ones.

Moscow – the capital of Russia – is the largest in the country and one of the most important in the world political, financial, industrial, transportational, scientific and cultural center.

The Moscow area is 1.08 thousand sq. km, and the population 10.4 million people.

In 2006, the gross regional output of Moscow incremented by 10.0% and the industrial output by 18.5%. As compared with 2005, the salary level in the capital run up 15.5%, the city created 39 thousand new jobs.

The inflation rate in Moscow in 2006 scored 9.0%, which is at the Russia wide level.

The Moscow Region (net of Moscow) occupies 46 thousand sq. km with the population being 6.6 million people.

The gross regional output in 2006 came up 12.8%. The growth of industrial output accounted for 18.0%. At the same time, the inflation rate in the Moscow Region in 2006 reached 8.3%, 0.7 percentage point below the overall Russia's.

By the industrial output, the Moscow Region is the second-best after Moscow among the Russian Federation regions. The Moscow Region actively ramps up the volumes of housing and industrial construction and development of social assets.

The growth of the Moscow area's production potential is accompanied by expansion of consumption of electric energy and power. The power consumption reached its absolute peak of 16,840 MW on January 20 at a mean daily outside temperature of minus 26.7°C.

The absolute peak in consumption during the latter half of the year was reached on December 21 at a mean daily outside temperature of minus 8.0°C and amounted to 14,944 MW. The peak demand reduced to a temperature of minus 28°C made up in December 2006 at 17,600 MW, up 4.5% from the peak of the past heat deficit period.

By supplying energy to the Moscow area, MOSENERGO provides for stable functioning and sustained development of its economy and social sphere. In 2006, electricity consumption in the area increased to 89.6 billion kWh, or 5.2% year on year.

MOSENERGO's generation provides for 72 % of electricity consumption in the Moscow area and around 70 % of heat consumed in Moscow.

The Company generates about 6.5% of electricity and 4.8% of heat of Russia's yield (including nuclear power plants), and 9.2% of electricity and 14.8% of heat of RAO UESR's output. With that, MOSENERGO's installed electrical capacity is around 4.9% of Russia's electrical capacity and 6.8% of RAO UES of Russia installed capacity.

In the installed capacity – 50.6 thousand MW, including thermal capacity – MOSENERGO leaves behind all territorial and wholesale generating companies of Russia.

Per worker, electricity generation in RAO UES of Russia at large is about 1.5 million kWh, while in MOSENERGO it is 3.6 million kWh, and the heat generation is 1.0 and 3.9 thousand Gcal, respectively.

As from January 1, 2006, MOSENERGO is an entity of the Russian wholesale electric energy (power) market.

Under the wholesale electric energy (power) market operation scheme that existed before the 1st of September 2006, sales in the regulated sector and in the free market sector distributed as 85% and 15%, respectively.

The Russian Federation Government by its resolution constituted the New Wholesale Market of Electric Energy and Power (NOREM) contemplating reorganization of the regulated sector into a system of regulated bilateral contracts (RBC) and the free market sector into a "day-ahead market" (DAM). The Market opened trade on September 1, 2006.

From September to December 2006, MOSENERGO operated according to the following pattern of sales to the NOREM: 100% of power and 97% of electricity were sold under RBCs and 3% of electricity in the DAM.

For full details of the Company operation in the WEM (NOREM) sectors, see Sections 2 and 8 of this Report.

## 1.2. Legislative Environment

The regulatory and legal framework embodying legislative acts and other laws and regulations of the Russian Federation, regulatory documents of Russia's Federal Service for Financial Markets and MOSENERGO's internal documents approved by the general meeting of shareholders and by the Company's Board of Directors serves as a guarantee that the principles of corporate governance are complied with.

MOSENERGO's activities are supervised by the Department of Industry and Energy of the Russian Federation (Federal Energy Agency), Ministry of Finance of the Russian Federation (Federal Tax Service), Federal Antimonopoly Service (FAS of Russia), Federal Tariff Service (FTS of Russia), Federal Environmental, Engineering, and Nuclear Supervision Agency (Rostekhnadzor) and other governmental authorities.

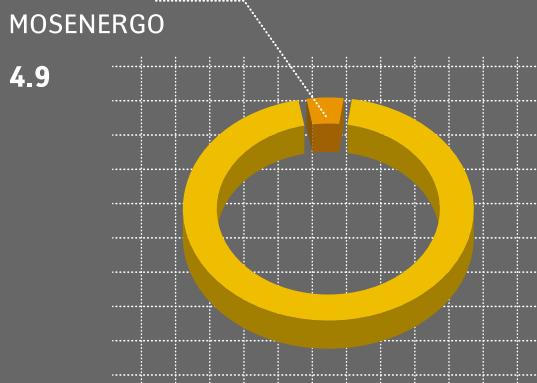
The baseline documents regulating operation of power utilities can be found on MOSENERGO's website<sup>1</sup>.

The most significant changes in the RF legislation on the electric power industry in 2006 include:

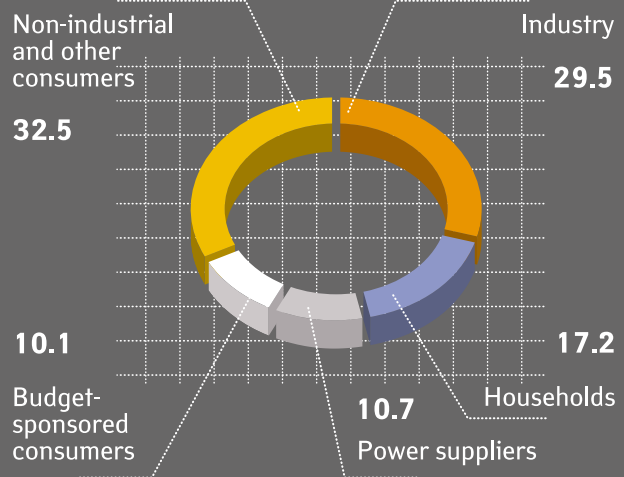
- the RF Government's Directive No. 38-r of January 19, 2006, "On Approval of the Mid-term (2006-2008) Socio-Economic Development Program of the Russian Federation and the Russian Federation Government's action plan for implementation of the provisions of the Mid-term (2006-2008) Socio-Economic Development Program of the Russian Federation in 2006";
- the RF Government's Resolution No. 529 of August 31, 2006, "On Improvement of Operation of the Wholesale Electric Energy (Power) Market";
- the RF Government's Resolution No. 530 of August 31, 2006, "On Approval of the Rules for Operation of the Retail Electricity Markets in the Transitional Period of the Electric Power Industry Restructuring";
- FTS Russia's Order No. 199-e/b of September 15, 2006, "On Approval of Guidelines for Calculation of Electric Energy and Power Tariffs Under Contracts of Sale at Regulated Tariffs (prices) in the Wholesale Market".

 <sup>1</sup> 1.6.

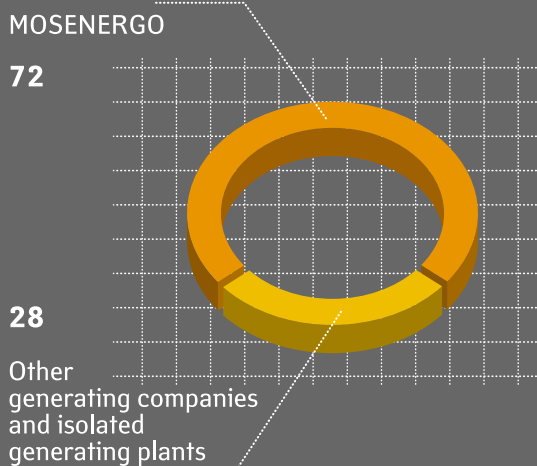
**MOSENERGO's Weight in Gross Russia's Electrical Capacity in 2006, %**



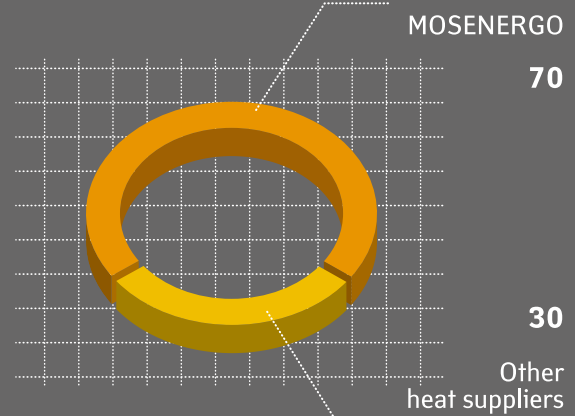
**Pattern of Electricity Consumption of the Moscow area in 2006, %**



**MOSENERGO's share in the electricity market of the Moscow area in 2006, %**



**MOSENERGO's share in the heat market of the Moscow area in 2006, %**



### 1.3. Risk Management

The risk management contemplates prevention of risks existing in the production and financial fields of MOSENERGO activities and minimization of their probable disamenities.

The Company abides by the Risk Management Regulation approved by the Board of Directors. The Regulation contains a Risk Map comprising primary kinds of risks that affect MOSENERGO's activities, and a risk management program<sup>1</sup>.

#### Political risks

A definite reduction of political risks marked the year 2006 for Russia. At the present time, we can see a positive trend in upgrading international ratings of the Russian Federation.

An economic growth observed during the last few years that brought about improvement of the most key macroeconomical indicators mitigated the risk of economic downturn in Russia that could find expression in a growth of the Company's accounts receivable and, respectively, payables to suppliers and contractors.

For MOSENERGO, a fundamental risk is the **risk of unreasonable rate regulation** associated with a possibility of forced control or administered reduction of tariffs or approval of tariffs that may be inadequate to the Company's costs.

The electric power industry reform contemplates tariff deceleration for the account of more effective capacity utilization and competition among generators at the wholesale electricity market. The larger is the slice of the free market sector, the stronger is its hold upon the tariffs.

The Company experts are constantly working with the FTS of Russia, Moscow REC and Moscow Region Energy Committee in order to approve economically sound level of tariffs. Also with a view to reduce the tariff regulation risk, the Company implements annually a Cost Control Program<sup>2</sup>.

### Market risks

**When operating on the New Wholesale Market of Electric Energy (Power), NOREM, the risks include:**

- modification of the terms of financial provision for purchase of electricity in the "day-ahead market" (DAM) sector;
- fluctuation of the DAM prices resulting in degradation of the accuracy of cash flow forecasts during planning of the amount of the proceeds from energy sales in the DAM;
- a giveaway darkness-hours price that forbids defrayal of the electricity generation costs in case of the stations loading in excess of the technological minimum;
- assignment of potential defaulters to the "bilateral contracts market" (BCM) sector.

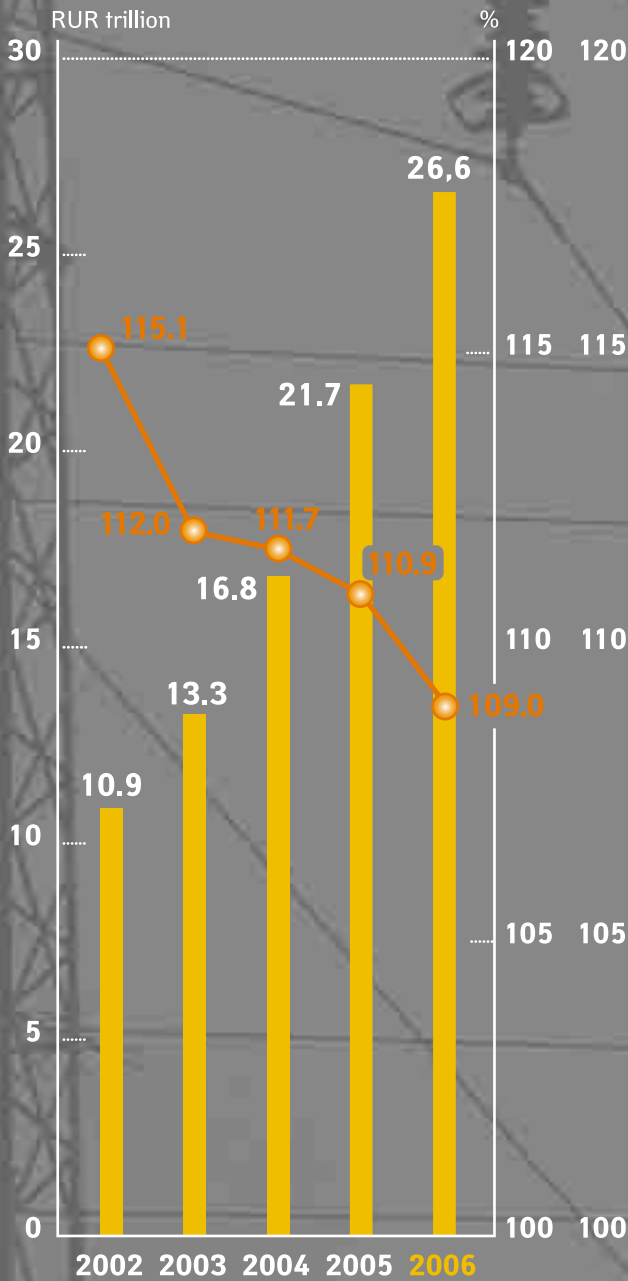
For a tool to minimize the NOREM risks, the use is made of the portfolio of free-will bilateral contracts that are concluded as a security for both the existing obligations in the BCM and volumes uncovered by the BCM.

**The risk of inflation** can cause MOSENERGO's cost escalation and result in a profit crunch. An escalation of inflation can also cause losses in the actual value of the Company's accounts receivable in case of a significant deferment of or delay in payments.

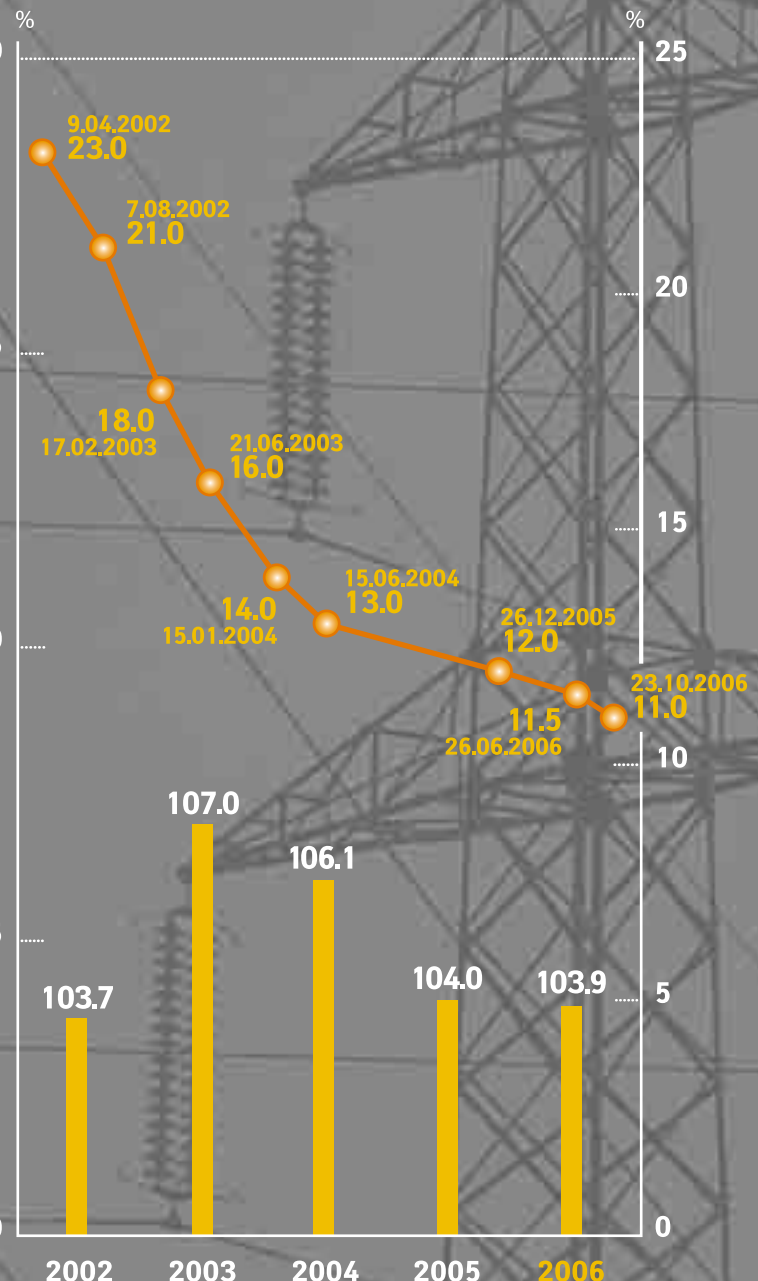
The inflation impact on the financial soundness of the Company is forecasted in its financial plans. To decrease inflation risks, MOSENERGO concludes long-term agreements for gas supply and transportation for power plants at a price fixed during the year.

 <sup>1</sup> 1.7.  
 <sup>2</sup> p. 86

History of Gross Domestic Product and Consumer Price Index in Russia\*



History of Industrial Output Index and Discount Rate of the Central Bank of Russia



■ Gross domestic product on current basis, RUR trillion  
 ● Consumer price index, %

■ Industrial output index\*, %  
 ● Discount rate of the Central Bank of Russia, %

\* Source Rosstat

\* Source Rosstat





### **Risk of losses through an inadvertent change in fuel prices**

The price of purchased petroleum products (black oil and diesel fuel) and coal largely depends on the domestic and export markets behavior and may feature sizeable fluctuations. A situation is probable when the business-plan fuel price will be exceeded, and additional financial resources will be required to pay for its delivery. To minimize the said risks, the Company power plants stockpile fuel.

### **Risk of losses through an inadvertent change in exchange rates**

Due to the fact that the Company sells its products in the domestic market, the Company's business is not directly exposed to fluctuations in the rates of foreign currency exchange. However existence of currency liabilities of the Company with respect to investment credits gives rise to financial risks attributable to dollar movements with respect to ruble. At the present time, they are not too high forasmuch as the share of exchange commitments in MOSENERGO's debt portfolio at the close of 2006 was about 4%<sup>1</sup>.

With a view to mitigating the exchange risks, the Company elected Russian ruble as the currency of the new investment credit for 2007.

The Company is subject to **financial (interest-rate) risks** to the extent of an indirect influence of credit interest rate fluctuations on the Company's financial performance. This basically concerns settlements of long-term credits denominated in foreign currency (US dollars) at floating interest (LIBOR-based) rates.

With a view to minimize the financial risks incidental to foreign exchange movements, the Company forms a reserve fund that is intended to cover losses and to meet contingencies, takes out insurance contracts to cover the borrower's assets, as well as executes contracts for securing credit commitments.

### **The liquidity risk is a probability of receiving a cash gap due to a cash deficit for extinction of obligations by the required date**


Planning of and control over daily volumes of cash receipts and payments for the services rendered, as well as existence of a contingent loss reserve fund enable the Company to minimize the risk.

In 2006, in aid of the financial risk management during financing of the current industrial and economic activities, the Company accomplished two bond issues of RUR 5.0 billion each with circulation periods of 10 and 5 years<sup>2</sup>.

### **Credit risks**

#### **Anticipated losses incidental to refusal or inability of the other party to a contract to meet its obligations in whole or in part**

When dealing with consumers, MOSENERGO adheres to a practice of custom-tailored service allowing for the specifics of financial and economic activities of each of them. This permits to find optimal, mutually beneficial solutions to problems of their debts.

 <sup>1</sup> p. 154

 <sup>2</sup> p. 79

## Tax risks

### **Risks of improper computation and payment of taxes resulting from disparate treatment of ambiguous norms of the law**

The senior officials consider that the Company is in full compliance with the tax legislation applicable to its activities, which nevertheless fails to eliminate the potential risk of being at variance with the competent regulatory authorities with respect to the issues that allow ambiguous interpretation.

MOSENERGO's legal department renders its advisory opinion to the accountants of the General Directorate and branches of the Company on the tax questions, prepares reports on matters of the tax law.

### **Risk of assets loss as a result of property destruction**

This risk includes the **risks of deactivation of energy facilities and destruction of the Company's property** as a result of acts of terrorism, stealing and natural calamities in the region.

In order to reduce these risks, the company causes routine inspections of anti-terrorist protection of the personnel and production facilities to be made, arranges for protection against probable consequences of accidents, disasters and natural calamities, provides emergency and fire-fighting training of personnel.

## Risks of civil responsibility

This group of risks includes **a risk of the region pollution liability and third party property tort, a risk of product liability in supplies to the domestic market of the region and to the WEM** (frequency and voltage for electricity, temperature and pressure for heat), as well as **a risk of management responsibility for damage inflicted to life and health of the Company's employees.**

To reduce the above risks, the Company takes steps:

- to reduce pollutant emissions into the environment;
- to maintain instant readiness of the equipment for bearing a load, and to create a spare capacity;
- to develop the computer-aided system of commercial energy metering;
- to conduct certification of workplaces and to provide working teams and working stations with means of individual and collective protection;
- to carry out an action plan for ensuring industrial safety of hazardous facilities of the Company.

## Industrial and technical risks

### **A risk associated with obsolescence of fixed assets, a risk of simultaneous steep increase of electric load, as well as technical risks incidental to the equipment operation**

Mosenergo analyses potential risk situations during implementation of the work program. The primary organizational form for mitigation and compensation of the amount of damage is insurance. Subject to commercial insurance are assets, dangerous production facilities, means of transport, civil responsibility, accident and health insurance of personnel, and medical insurance.

The Company hedges against the industrial and technical risks by way of creating stockpiles of fuel, spare parts, materials, as well as by carrying out measures to improve reliability of the power system.

**Risks incidental to bridging new equipment into service** are minimized through acquisition of equipment that is manufactured according to technologies of manufacturing plants well-established on the market of a given product and that has proved its technical/economic metrics during warranty tests and during the testing period of operation.



### Operational risks

**A risk of losses as a result of inferiority of management processes in the Company, wrong choice of the market strategy**

In order to reduce the operational risk, the Company continuously improves its corporate governance mechanisms.

It arranges for training of managers and specialists at post-graduate training establishments, creates a reserve for filling managerial positions.

### Investment risks

In implementation of the investment program, MOSENERGO is exposed to investment risks, i.e. **risks associated with degradation of key indicators of an ongoing project as a result of a change in external factors.**

This risk is minimized through preservation and maintenance of the secured amount of assets. Application of financial lease mechanisms for acquisition of the Company's fixed assets in 2006 made it possible not to burden the Company's budget with lump sum payments of the full cost of property, but rather to distribute payments with an allowance for seasonality of the operating proceeds. Reduction of the investment risks of the Company was also achieved for the account of application of the insurance mechanisms.

### Legal risks

**Risks of losses associated with the fact that the legislation was either disregarded, or changed in the period of the transaction; a risk of improperly drawn up documentation**

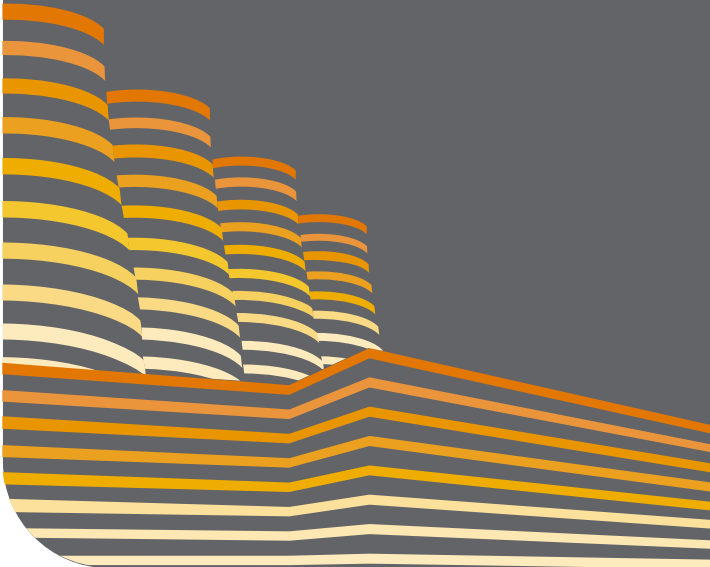
The management of the legal risks is based on optimization of the process of legal execution of documents and legal support of the Company's activities. For minimization of legal risks, all business processes of the Company exposed to such risks (e.g., execution of contracts) are subject to obligatory due diligence review. In 2006, MOSENERGO's legal department carried out legal examination of 2753 contracts and supplementary agreements to the contracts concluded with counterparties.

The legal department renders its advisory opinion to the Company employees in solving practical tasks that arise during application of laws on an on-going basis.

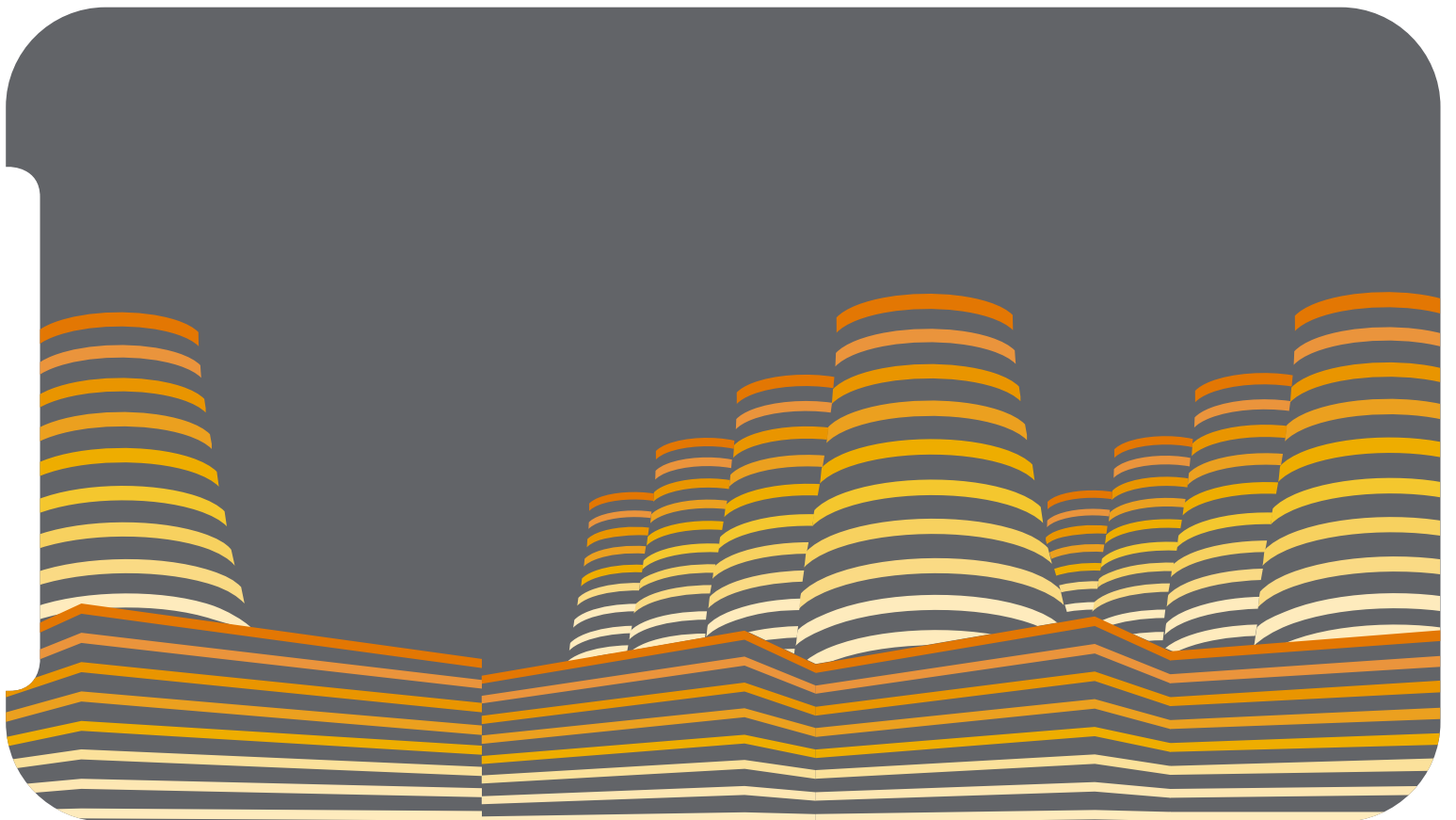


# ENERGY GENERATION

# 2



In 2006, the Company's power plants generated **64,4** billion kWh of electricity and **70.2** million Gcal of heat



## 2.1. Production Facilities

The generation base of MOSENERGO consists of 17 power plants with 105 cogeneration turbines, 7 gas-turbine units and 2 expansion generating units, 117 power boilers and 115 peak-load boilers.

All power plants of the Company are combined heat and power plants, i.e. they perform co-generation of two kinds of energy, electric and thermal, using one and the same equipment, a cogeneration turbine.

Seven power plants use equipment operating in a packaged circuit. A total of 19 power units are installed thereat.

One of the Company's power plants, LAPS-3, is a peak-load power plant. It is equipped with gas-turbine units and is designed to level daily loads of the power system and to provide for secure energy supply during peak hours.

Using the facilities of TEP-28 and in affiliation with the Institute of Computer Science and Technology of the Russian Academy of Sciences and other energy institutes, the Company organized a research and development centre which developed and tested many leading-edge technologies: a system of firing optimization, monitoring and accounting of atmospheric pollutant emissions, electrical annex automated control systems and other.

### Generation Facilities (as of 01.01.2007)

Power stations	Aggregate electrical capacity, MW	Aggregate heat capacity*, Gcal/h	First unit commissioned	Latest unit commissioned	
				turbines	boilers
TEP-1, including the branch	95.00	951.00	1897	2006	2001
LAPS-3	658.28	341.38	1914	2006	2000
TEP-6	24.00	139.00	1930	1985	1961
TEP-8	605.00	2,192.00	1930	1986	1986
TEP-9	250.00	859.00	1933	1991	1993
TEP-11	330.00	1,011.00	1936	2001	2002
TEP-12, including the branch	408.00	2,043.00	1941	1998	1992
TEP-16	360.00	1,484.00	1955	1994	1963
TEP-17	192.00	712.00	1950	2002	1957
TEP-20	730.00	2,400.00	1952	2004	2002
TEP-21	1,350.00	4,618.00	1963	2006	1983
TEP-22	1,300.00	3,614.00	1960	2003	1973
TEP-23	1,410.00	4,515.00	1966	1997	1982
TEP-25	1,370.00	4,088.00	1976	1991	1991
TEP-26	1,410.00	4,006.00	1981	1988	1988
TEP-27	160.00	1,276.00	1992	1998	1998
TEP-28	25.00	40.00	1992	1993	1993
<b>Total:</b>	<b>10,677.28</b>	<b>34,289.38</b>			

\* the aggregate heat capacity includes the capacity of steam water boilers.

## 2.2. Electric Energy and Power Generation

In 2006, the Company's power plants generated 64.4 billion kWh of electricity, down 0.7% versus the level of 2005, and up by 4.6% from a year earlier under comparable conditions.

The gain in generation is attributed to the growth of electricity consumption in the Moscow area and anomalous frosts early in 2006, when the outside air temperature went below 30°C.

From January 17 to 25 and from February 3 to 10, 2006, MOSENERGO imposed the power mobilization regime at its power plants, which implies that during the rising electric energy demand the turbines open regulating orifices and part of bleed heat is transmitted to the peak-load boilers providing a way to augment electricity generation.

Additional load run to 631 MW in January and to 496 MW in February.

MOSENERGO's TEPs generated 10,415 MW with an allowance for power mobilization.

At all its power plants, MOSENERGO has preliminary accomplished a package plan aimed to provide for their reliable operation in the period of cold waves.

Since the beginning of 2006, MOSENERGO as a generation company sells electric energy and power in the wholesale market.

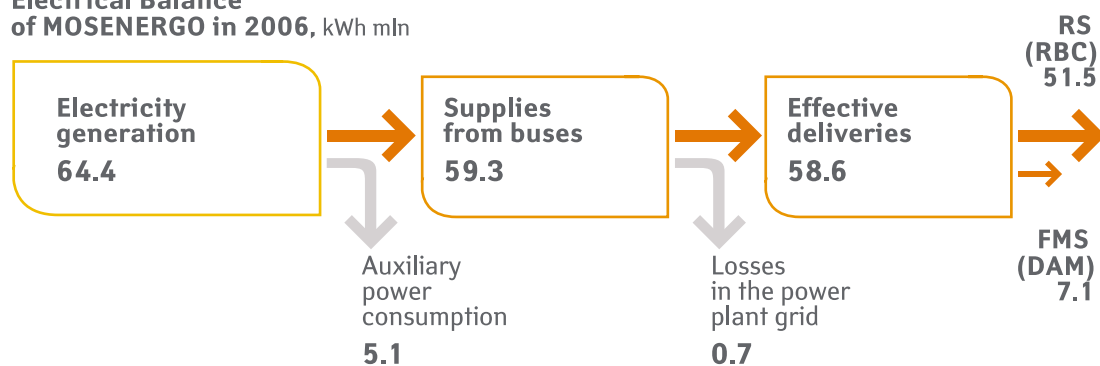
MOSENERGO electricity supplies to the WEM (NOREM as from September 1) in 2006 totaled 58.6 billion kWh, including 51.5 billion kWh of electricity (cum the discrepancy sector) was sold in the regulated WEM sector (bilateral contracts market as from September 1). In the free market sector (the day-ahead market as from September 1), electricity sales worked out at 7.1 billion kWh.

### Electricity generation, kWh mln

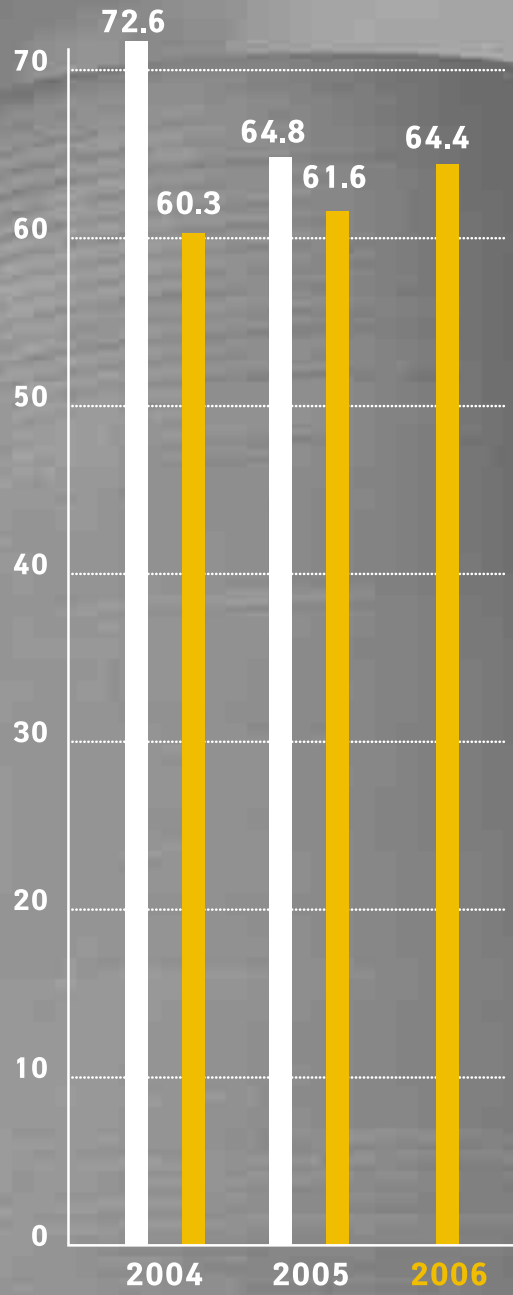
Power station	2004	2005	2006
<b>MOSENERGO power stations</b>			
TEP-1	380.1	365.3	358.1
LAPS-3	138.1	148.4	183.9
TEP-6	34.3	34.9	36.4
TEP-8	2,770.1	2,935.0	3,131.1
TEP-9	1,221.1	1,473.4	1,347.3
TEP-11	1,867.9	1,982.2	2,124.3
TEP-12	2,614.8	2,732.4	2,661.1
TEP-16	2,396.7	2,386.9	2,423.8
TEP-17	565.4	594.3	655.0
TEP-20	3,768.9	4,027.8	4,545.7
TEP-21	9,113.6	8,945.4	9,045.0
TEP-22	8,199.6	8,489.4	9,167.6
TEP-23	8,734.3	8,943.6	9,236.3
TEP-25	8,313.0	8,648.6	8,859.5
TEP-26	8,932.2	8,479.5	9,199.6
TEP-27	1,116.4	1,261.3	1,298.5
TEP-28	106.7	107.1	104.7
<b>Total:</b>	<b>60,273.2</b>	<b>61,555.5</b>	<b>64,377.9</b>
<b>Power plants that formed part of MOSENERGO before April 1, 2005</b>			
LAPS-4	5,803.2	1,425.0*	-
LAPS-5	3,135.6	942.8*	-
LAPS-24	1,492.8	431.6*	-
Zagorsk PSP	1,950.2	457.5*	-
<b>Ultimate:</b>	<b>72,655.0</b>	<b>64,812.4</b>	<b>64,377.9</b>

\* 1Q 2005 data

### Electrical Balance of MOSENERGO in 2006, kWh mln



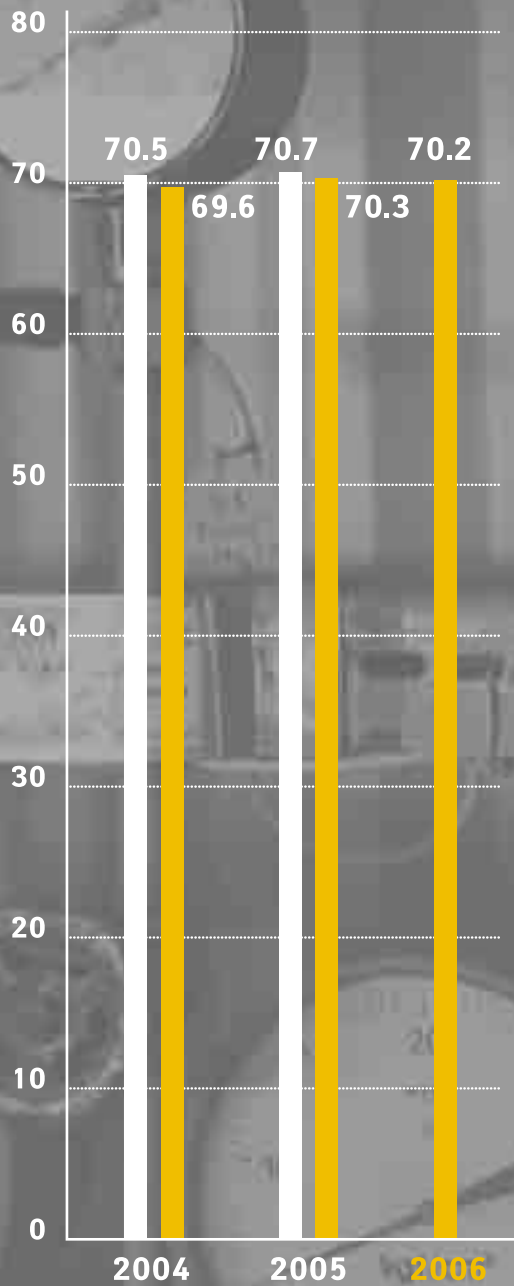
Electricity generation,  
kWh bln



■ As in 2004-2005

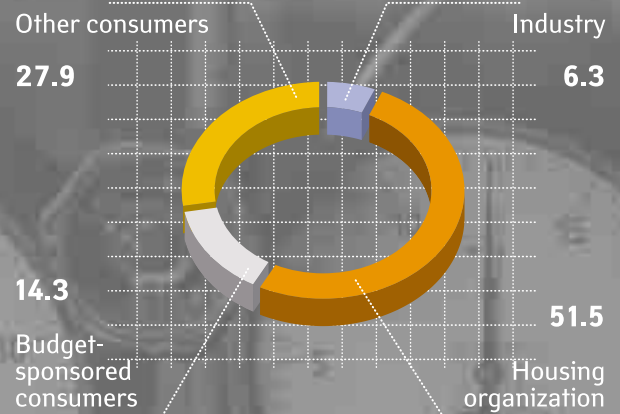
■ Data on power plants incorporated in the restructured Company

**Heat dispatched from manifolds,  
Gcal mln**



- As in 2004-2005
- Data on power plants incorporated in the restructured Company

**Pattern of Heat Consumption  
in 2006, %**



## 2.3. Heat Generation

Heat generation is a core business of MOSENERGO.

By its heating capacity, MOSENERGO is the world's largest power system and the principal supplier of heat to the Moscow area consumers.

Heat is produced by bleeding steam and peak-load boilers. Heat sales in bleed steam in 2006 amounted to 87.8%.

The 2006 sales of heat from the power plant manifolds worked out at 70.2 million Gcal, a 0.7% decrease against 2005, and 0.2% year on year under comparable conditions. For the most part, this is a consequence of reduction of the 2006 heating period duration by 8 days: in May, the heat supply was discontinued 5 days previously, and in October it commenced 3 days later than in 2005, and a 2 percentage points cutback in heat deliveries to compensate for the heating grids losses.

The heat deliveries with an allowance for purchases totaled 70.8 million Gcal, including 66.5 million Gcal to ultimate consumers and 4.3 million Gcal to compensate for the heating grids losses.

The effective sales of heat to ultimate consumers run up 0.8% against the level of 2005 and 1.3% from the last year under comparable conditions.

95.8% of heat was delivered to the Moscow consumers, and 4.2% to the consumers in the Moscow Region.

Consumption of heat increased in Moscow by 1.1% and in the Moscow Region – by 6.3%.

Expansion of heat consumption versus 2005 took place in almost all consumer groups. The heaviest growth of heat consumption is in the construction sector, housing cooperatives and householders societies brought on by new connected loads of such consumers.

A boom in construction of housing and energy-intensive shopping and leisure centers, development of industry and transport in Moscow and the Moscow Region leads to the further growth of heat consumption in the Moscow area.

### Heat dispatched from manifolds

Gcal'000

Power station	2004	2005	2006
<b>MOSENERGO power stations</b>			
TEP-1	1,895.1	1,948.9	1,876.6
LAPS-3	436.8	391.2	415.1
TEP-6	177.0	186.5	187.9
TEP-8	2,378.5	2,427.0	2,374.7
TEP-9	1,558.0	1,552.3	1,432.8
TEP-11	2,033.8	2,346.3	2,503.5
TEP-12	3,349.3	3,365.2	3,525.2
TEP-16	4,016.6	3,905.1	3,876.7
TEP-17	682.0	582.1	641.6
TEP-20	4,644.1	4,737.5	4,857.2
TEP-21	11,420.9	11,458.8	11,210.6
TEP-22	9,226.0	9,350.3	9,437.5
TEP-23	9,331.6	9,249.1	9,269.1
TEP-25	7,190.2	7,200.2	6,791.1
TEP-26	8,766.9	8,972.1	8,979.8
TEP-27	2,315.4	2,447.0	2,600.1
TEP-28	199.8	205.5	201.5
<b>Total:</b>	<b>69,622.0</b>	<b>70,325.1</b>	<b>70,180.9</b>
<b>Power plants that formed part of MOSENERGO before April 1, 2005</b>			
LAPS-4	396.7	175.9*	-
LAPS-5	491.4	223.3*	-
LAPS-24	-	-	-
Zagorsk PSP	-	-	-
<b>Ultimate:</b>	<b>70,510.1</b>	<b>70,724.5</b>	<b>70,180.9</b>
* 1Q 2005 data			

In order to solidify the Company's position in the heat market, it is essential to respond to the maximum number of consumers' requests for connection to MOSENERGO's generators and to expand its heating capacities.

The connected heating load of the Company consumers added 531.3 Gcal/h in 2006, reaching 33,965.3 Gcal/h by the beginning of 2007.

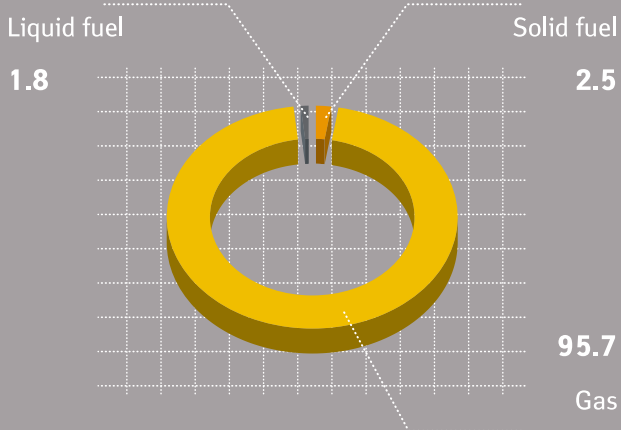
The installed thermal capacity in 2006 increased by 115.4 Gcal/h, reaching 34,289.38 Gcal/h.

# ENGINEERING SUPPORT OF GENERATION

# 3

Dependable supply of resources, quality repair and a consistent engineering policy are the earnest of stable operation of **the Company**

Pattern of Fuel Consumption in 2006, %





### 3.1. Procurement of Fuel

Dependable organization of fuel supplies is one of the key points that provide for stable operation of MOSENERGO's co-generation plants.

Natural gas is employed as primary fuel with coal and black oil used as back-up fuel.

#### Fuel Consumption by MOSENERGO TEPs, thou tfe

	2004	2005*	2005**	2006
Total	28,740.7	26,639.5	25,634.0	26,654.6
Gas	26,470.3	25,541.2	24,761.7	25,504.0
Black oil	860.5	395.0	328.3	474.2
Coal	1,409.9	703.3	544.0	676.4

\* data adjusted for the Company operation in the 1st quarter before restructuring;  
 \*\* data adjusted for the Company operation in the 1st quarter under conditions comparable with 2006.

The actual fuel consumption in 2006 in terms of equivalent fuel was 26.65 mln tfe.

The actual consumption of natural gas reached 22.3 billion cu m, black oil – 357.7 thousand tons, coal – 895.2 thousand tons.

Taken as a whole, MOSENERGO's total fuel consumption rose 4.0% from the level of 2005 driven by a 3.0% increase in gas consumption, and 44.5% and 24.4% upsurge in consumption of liquid and solid fuels, respectively. However, the solid fuel accounted for 2.5% and liquid fuel for 1.8% of the overall fuel mix of the system.

For the most efficient fuel utilization, MOSENERGO daily fights for optimization of fuel regimes. In 2006, the value of benefits worked out at about RUR 1,417.9 million.

An above-limit gas bleed to TEP plants of the city of Moscow on working days agreed upon with gas suppliers allowed substitution for 518.0 thousand tons of furnace oil. Payment for the above-limit gas at the FEC price with a factor of 1.1 and 1.5 in the periods concerned made it possible to save at least RUR 1,406.2 million (inclusive of VAT) for the account of black oil replacement within the fuel mix.

Within the framework of the claims work with fuel suppliers and transport organization, RUR 11.7 million were collected for improper discharge of contractual commitments.

With a view to mitigate the risks of a gap between the fuel supplies and consumption, the Company stockpiles fuel (coal and black oil).

### 3.2. Maintenance Effort

The maintenance effort provides for the reliable performance of production facilities, as well as for longer service life of the power plants equipment.

Repairs are performed by the personnel of MOSENERGO's power plants, specialized repair branches, as well as by third party contractors.

To optimize application of funds allocated for repair, the Company carries out pre-repair diagnostics of the equipment; and to conclude repair contracts under the most favorable for the Company conditions, it carries out regulated competitive procedures<sup>1</sup>.

In 2006, the costs of repair of the Company's equipment, buildings and structures totaled RUR 4.7 billion.

The remedial maintenance expenses distributed as 83% for the equipment repair and 17% for the repair of buildings and structures.

The year 2006 saw overhaul and medium repairs accomplished on 9 power units, 23 turbines, 25 power boilers and 8 peak-load boilers. The remaining 10 power units and more than 50% of turbines, power boilers and water heaters underwent current repairs. The technical and economic metrics of the better part of boilers and turbines had been improved and brought to the rated values.

An extension program was implemented for the equipment whose specified service life had expired: a special examination of metal of 9 boilers (manifolds and steam bypass pipes), 15 steam pipelines and three turbines was conducted.

In 2006, the Company performed 21 overhauls and 11 medium repairs on generators.

The most significant pieces of work that were executed in the 2006 repair campaign are:

- major repairs of generator No. 11 at TEP-8 and generator No. 28 at TEP-1 involving complete replacement of the stator winding;
- major repairs of generator No. 9 at TEP-22 involving replacement of the core end packages and stator winding;
- major repairs of 10 rotors involving removal and non-destructive inspection of retaining rings and replacement of slip rings on two rotors carried out at the CRMZ, a Company branch;
- inspection of 17 generators at 9 power plants.

The reporting year saw 25 transformer overhauls. The most significant pieces of work involving replacement and installation of transformers were performed at TEP-16, 21 and GTU-TEP plant.

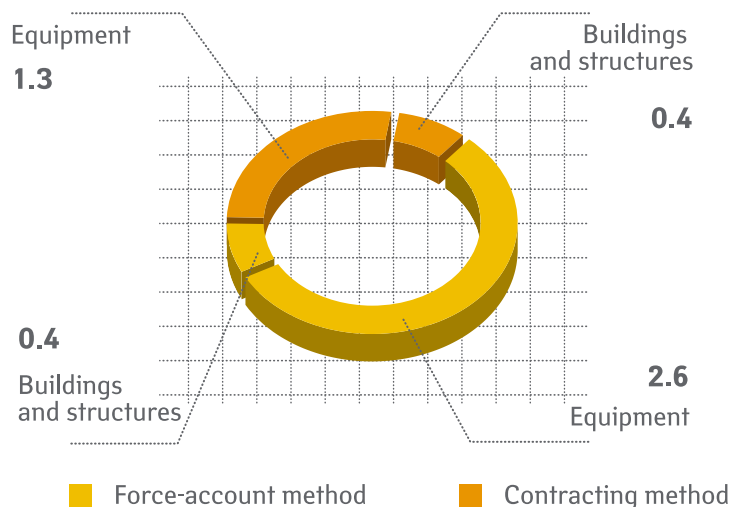
8 air circuit breakers and 3 oil circuit breakers went through major repairs and 10 oil circuit breakers went through medium repairs, two 110 kV oil circuit breakers were removed at each of TEP-11 and TEP-20 and replaced with SF6 circuit breakers, 40 stick-pedestal insulators whose service life had expired were replaced.

The power plants carried out the annual scheduled inspection and repair of their liquid fuel tanks. 20 tanks of the total capacity of 171.7 thousand tons were inspected and 4 tanks of the total capacity of 57.6 thousand tons were repaired. Repairs of equipment of the fuel transport departments were performed within the planned scope.

The power plants repaired and inspected 49 stacks, 10 cooling towers, vamped 71 thousand sq. meters of roofing of production buildings.

The thorough repair campaign worked largely towards the Company's successful management of the 2006/2007 fall/winter peak loads.

**Pattern of repair costs in 2006,**  
RUR bln



<sup>1</sup> c. 33

### 3.3. New Equipment and Technologies

#### Engineering Policy and Energy Efficiency

The Company should pursue a balanced and consistent engineering policy relying on introduction of advanced achievements of the world technologies to maintain the constant and high reliability of a large technological system, such as MOSENERGO.

To perform the works aimed at improving the efficiency of operation of the Company's equipment, MOSENERGO's Annual Integrated Purchase Program for 2006 contains a special section which included the following topical areas: diagnosis and assessment of the state of the equipment of the branches, preparation of proposals to improve reliability and economical efficiency of its operation; expert review and justification of the power system's equipment load and operation modes; improvement of the methodological and technical regulatory base; maintenance of equipment, etc.

Specialized organizations that are very experienced in the power industry, such as OAO VNIIE, MEI (TU), OAO VTI, Firm ORGRES, a branch of OAO UES Engineering Center, and a number of others have been engaged to take part in equipment checks and in implementation of the cutting-edge technologies.

OAO VNIIE conducted an integrated survey of five turbine generators at TEP-8, 12 and 22 using advanced electromagnetic, ultrasound and vibration acoustic technical diagnostic methods. Following the surveys, recommendations on repair and replacement of certain turbine generator units were given and the possibility of extension of their operating life was determined.

TEP-21 analyzed the operation modes, technical state, damageability and deficiencies in the operation of electric motors of mechanisms for the power units' own needs. Their actual loads and thermal state were determined experimentally for various power unit loads. Recommendations were given to reduce electricity consumption for the own needs, improve operational reliability and upgrade operation of electric engines.

Recommendations on algorithms and settings of the control systems of the power unit generators and for its normal and emergency operation modes were developed for power unit No. 3 (CCPU) that is being built at TEP-27. The recommendations developed will be used in the power unit commissioning process.

Chemical shops were surveyed at 11 out of 17 power plants of the Company, feasibility studies and environmental estimates were prepared and proposals for their refurbishment using membrane technologies were developed in the reporting year under agreements with OAO VTI as part of the Prospective Program for Refurbishment of Equipment of TEP Chemical Shops. Such refurbishment will allow for a considerable reduction in operating and repair costs for preparation of desalinated and chemically treated water and repayment of refurbishment cost during 3 to 5 years.

In 2006, MEI and its scientific & production unit ZAO Center POTEST performed a number of works in accordance with the approved Scientific Technical Program for Cooperation of MOSENERGO and MEI for 2006-2007.

TEP-23 surveyed and analyzed technical proposals and implemented measures and, on their basis, recommendations were developed to improve the thermal scheme of 250 MW power units ensuring improvement of its power efficiency.

Based on TEP-8 technological schemes, the experience of using plate heat exchangers for heat carrier heating and cooling was analyzed. The feasibility study of the efficiency of using plate heat exchangers at MOSENERGO power plants was prepared and recommendations for their use in heating grid fluid make-up circuits, turbine condensate cooling circuits, boiler condensate circuits and oil supply system circuits were developed.

TEP-22 and TEP-26 developed methodological regulations and calculated individual standards of pollutant discharge together with wastewater of power plants. Based on the analysis of use of water resources, wastewater formation sources and operation of treatment facilities at power plants, technical proposals and recommendations were given to reduce pollutant discharges.

In 2006, ORGRES developed:

- technical regulatory documentation on fuel use for six TEPs of MOSENERGO;
- expert review of calculations and agreed upon MOSENERGO's power plant capacity limitations and their reduction measures planned for 2007.

In order to optimize the operation mode of power plants, annual calculations of minimum electric loads during the heating period of 2006/2007 and minimum and maximum electric loads during the summer period of 2006 were made.

Under an agreement with OAO NPO CKTI, works were performed on T-250/300-240 turbines of TEP-21, 23, 25, and 26 in 2006 to install, start up and test forced steam cooling systems (FSCS) of RSD-1 medium pressure rotors. The installation of FSCS will result in increase of the remaining life of the rotor, maneuverability and economic efficiency of the turbine.

### **Energy Saving**

MOSENERGO has been implementing the Energy Saving Program for the period leading up to 2010. Every year its metrics are refined. MOSENERGO also joined the energy saving programs for Moscow and the Moscow Region.

In 2006, implementation of the Energy Saving Program went along the following lines:

**Organizational & technical measures during generation and transportation of electricity and heat.** The Company's power plants performed both routine maintenance and repairs connected with elimination of leak-ins, sealing of vacuum systems, cleaning of heating surfaces, laying up of equipment, etc. and non-routine works connected with refurbishments, replacement of old and introduction of new economical equipment and new technological schemes. A number of measures were connected with optimization of loads on the power station equipment and its operation modes.

**Measures to install power resource metering and controlling devices.** In the reporting year, new gas, electricity and heat metering devices as well as other controlling devices were installed at power plants under the program for introduction of automated power resource controlling and metering systems. The costs of the above works amounted to RUR 22.6 million.

**Power-related surveys of power plants.** During the first six months of 2006, the power-related survey of TEP-21 was completed. The program for primary mandatory power-related surveys of MOSENERGO's power plants was thus fully implemented in accordance with Federal Law No. 28 dated April 3, 1996 "On Energy Saving."

The costs of implementation of all energy saving measures by MOSENERGO were RUR 331.7 million in 2006 on the whole.

The implementation of the energy saving measures in 2006 by MOSENERGO resulted in the total saving of fuel and power resources (fuel, electricity and heat), as translated into fuel equivalent, of 60.92 thousand tfe (RUR 76.05 million).

### **Information Technologies and Telecommunications**

Information technologies (IT) are used by MOSENERGO in almost all business areas of the Company.

IT tools were used to automate more than 70 enterprise management-level business tasks and more than 50 technological process control-level business tasks.

The following technologies are employed to use resources efficiently:

- centralization of computing and information resources;
- virtualization of computations and processing of information queries;
- service-oriented architecture;
- harmonization of software and hardware;
- multi-level "client-server" architecture.

The largest IT project in 2006 was to create electricity, heat and gas commercial metering systems at MOSENERGO's power plants. These information systems perform the functions of gathering, processing and storage of metering results and information on the state of metering facilities and means.

MOSENERGO's IT structure includes the Information Technology and Telecommunications Directorate, Company's specialized branches IVC (Information Computing Center) and Energosvyaz as well as ACS (Automated Control System) units of the branches.

IVC provides IT services to the extent relating to support of corporate applications and IT infrastructure (services, computers, networks).

Energosvyaz provides IT services to the extent relating to support and maintenance of telecommunication means and system, digital and analogue telecommunication channels, fiber optic systems and cable trunks. ACS units of the branches provide support and maintenance for the software and hardware systems within their branches.

The Company's priority in development of communication and telecommunication means in 2006 was to continue to build the primary digital telecommunication network using fiber optic telecommunication lines.

Major construction projects include the following areas:

- construction of fiber optic telecommunication lines;
- development and improvement of the trunk SDH data network;
- development and improvement of the subscriber access network;
- creation and improvement of the telecommunication equipment power supply system.

A Gigabit Ethernet-based transport data network is intended to be created in 2007 to ensure access of MOSENERGO branches to the corporate software and information resources. The network will connect the branches by placing communication nodes at each power facility and will unite them into a logical data field.

### 3.4. Procurement Activities

For task-oriented appropriation of MOSENERGO financial resources, the Company's Board of Directors approved Regulation on the Standing Central Buying Committee of MOSENERGO and its composition. The Standing Central Buying Committee makes sure that a concerted policy is framed and pursued in the field of procurement of goods, works and services for MOSENERGO's needs.

The year 2006 saw regulated procurement procedures followed in the areas of activities listed below:

- fuel for power plants;
- construction, refurbishments and technological upgrades of power facilities;
- maintenance and repair of power facilities;
- consultancy services in the field of restructuring;
- services in property management;
- consulting services and R & D;
- administrative and business products;
- miscellaneous procurements.

The volume of purchases in 2006 totaled RUR 19.0 billion (unadjusted for the cost of purchase of the rationed gas to the amount of RUR 30.3 billion).

1493 competitive procedures were carried through to the total amount of RUR 12.3 billion (net of VAT).

Aside from that, the Company awarded 823 sole-sourced contracts to the total amount of RUR 6.7 billion.

From October 2006, MOSENERGO has been following regulated procurement procedures on the open electronic trading floor of the "Market of Products, Services and Technologies for Power Industry" informational, analytical, trading and operational system ([www.b2b-energo.ru](http://www.b2b-energo.ru)), as well as posting copies of procurement advertisements (notices).

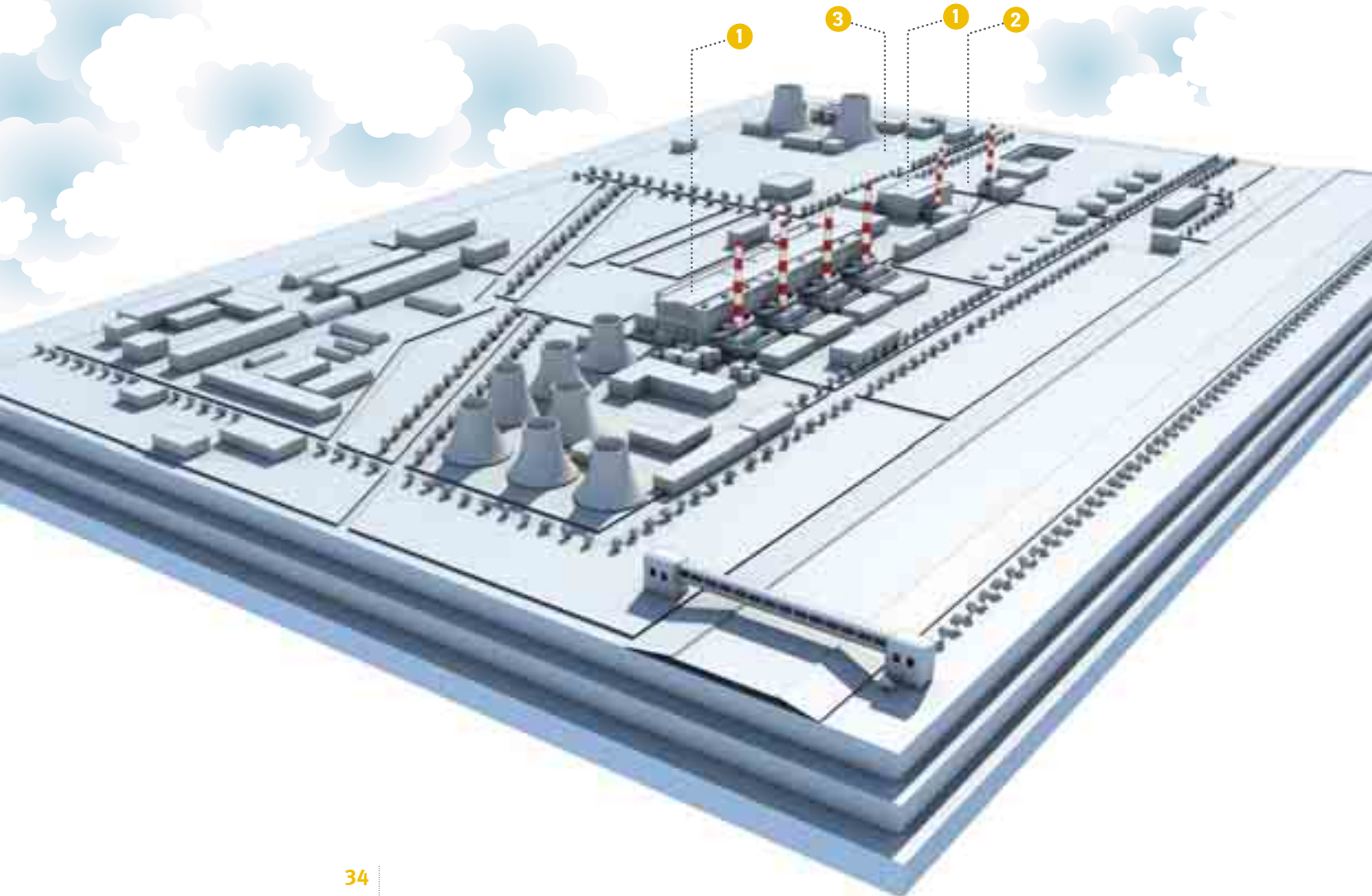
With a view to securing rights and legal interests of the Company shareholders and investors, the Company provided access via the Internet to the information on its procurement activities and its timely updating<sup>1</sup>.

 1 4.

**TEP-21** commissioned on  
October 22, 1963.  
Installed electrical  
capacity – **1,350** MW,  
heat capacity – **4,618** Gcal/h.

- ① Main building
- Construction sites:
- ② Power unit № 11
- ③ Cooling tower № 10

TEP-21 has in place the world's largest expansion generating system that allows conversion of the natural gas overpressure energy into electricity.







# TEP

# 21

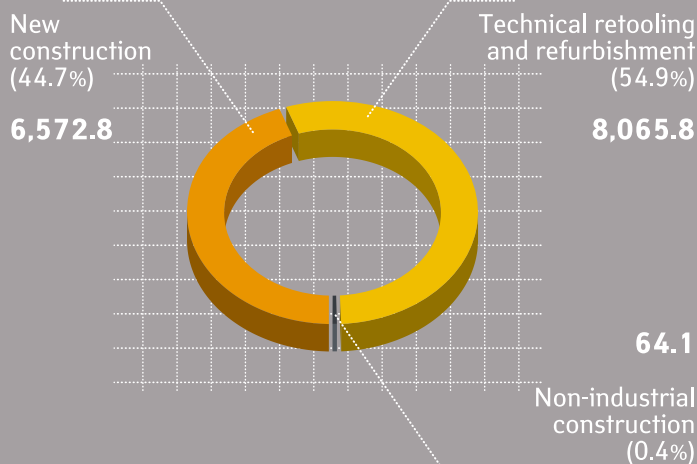
March 2006 saw commencement of the construction of a new **power unit No. 11** using the combined cycle technology. The electrical capacity of the new power unit will be **450 MW**, the heating capacity – **300 Gcal/h**, and the efficiency – **51,5%**. The projected in-service date of **power unit No. 11** is May 2008 .

# INVESTMENTS IN PRODUCTION

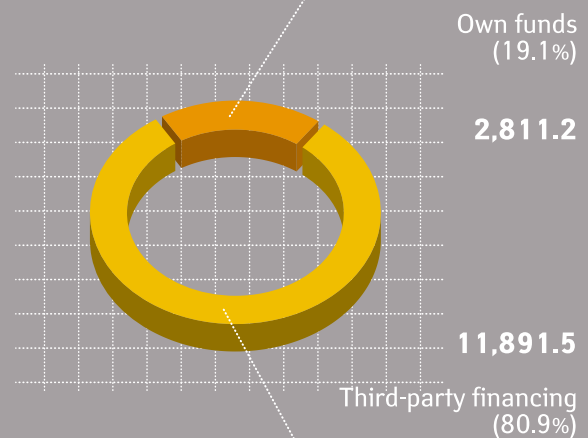
# 4

Capital investments in 2006 were RUR **14,7** billion. The 2007 investment program – RUR **33,4** billion

**Pattern of Capital Investments in 2006 by Investees, RUR mln**



**Pattern of 2006 capital investments with breakdown by sources of financing, RUR mln**





### 4.1. Investment Activities in 2006

2006 has become the determinant year for MOSENERGO in deployment of construction of new facilities and adoption of basic technical, corporate and financial decisions.

The Company began to implement an ambitious Program for Development and Technical Retooling pursuant to which about 2.4 GW of capacity is planned to be introduced until 2010<sup>1</sup>.

The Company undertook medium-term (five year) commitments to commission the capacities under the Agreement "On Interaction of the Government of the City of Moscow and RAO UES of Russia in Implementation of Investment Programs for Construction and Refurbishment of Electric Power Facilities to Prevent Capacity Deficit and Improve Reliability of Electricity Supply to Consumers of the City of Moscow" dated May 25, 2006 and the Agreement "On Interaction of the Government of the Moscow Region and RAO UES of Russia for Development of the Electric Power System of the Moscow Region and Ensuring Reliable Electricity Supply to Consumers of the Moscow Region" dated November 15, 2006.

MOSENERGO's investment activities are connected with introduction of new capacities, replacement of the worn equipment and its refurbishment as well as construction and refurbishment of buildings and facilities.

The Company's capital investment areas are specified by the annual special order on capital construction.

Capital investments in 2006 were RUR 14,702.7 million.

#### History of Actual Capital Investments (Including Advances Made), RUR million

Area	2004*	2005*	2006
Total	2,080.4	3,248.7	14,702.7
Technical retooling and refurbishment	1,548.2	2,876.1	6,572.8
New construction	434.7	266.0	8,065.8
Non-industrial construction	97.5	106.6	64.1

\* the data is given for the branches that form part of MOSENERGO after reforming

<sup>1</sup> 1.9.

**Structure of Capital Investments in 2006 by Area, RUR million**

Area	Plan	Actual
Total capital investments	14,697.0	14,702.7
Power stations*	13,909.1	13,904.6
Equipment not requiring installation	170.2	179.3
R&D of future years	41.5	41.6
Non-industrial construction (without equipment not requiring installation)	32.4	32.4
Other branches*	182.0	183.0
Heating grids	361.8	361.8

\* without equipment not requiring installation and R&D of future years.

In 2006, MOSENERGO's actual costs for construction of new production capacities amounted to RUR 8,065.8 million, or 54.9% of the total performance of the investment program.

The largest new construction facilities in 2006 were combined cycle power units at TEP-21, TEP-26 and TEP-27.

**Fulfillment of the Investment Program in 2006 for the Key Capital Construction Facilities, RUR million**

Facility	Plan	Actual	Financing source	Commissioning date
LAPS-3. Commissioning of CTU-TEP in Elektrostal	278.9	286.3	depreciation	Commissioned 31.2 MW
TEP-16. Extension of 10 kV GDU, construction of buildings of 20 kV ISG and 110 kV GIISG	278.7	273.0	EBRD loan	Q4 2007
TEP-21. Extension. Unit No. 11	2,451.3	2,428.5	depreciation, loan of Russian banks	Q2 2008
TEP-26. Construction of power unit No. 8 CCPU-420	109.3	109.2	depreciation	Q1 2009
TEP-27. Construction of power unit No. 3 based on CCPU-450	4,266.9	4,266.9	depreciation, loan of Russian banks	Q4 2007
TEP-27. Construction of the Ostashkovo Heating Main from TEP-27	208.2	208.2	depreciation	Q4 2007

## ■ INVESTMENTS IN PRODUCTION

In 2006, fixed assets were commissioned for RUR 4,639.5 million against the plan of RUR 4,547.0 million.

For the purpose of improving the reliability of the power equipment, the Company also implemented capacity modernization projects at power plants under the technical retooling program.

The costs of technical retooling and refurbishment in 2006 were RUR 6,572.8 million.

166.2 MW of capacity was commissioned in 2006.

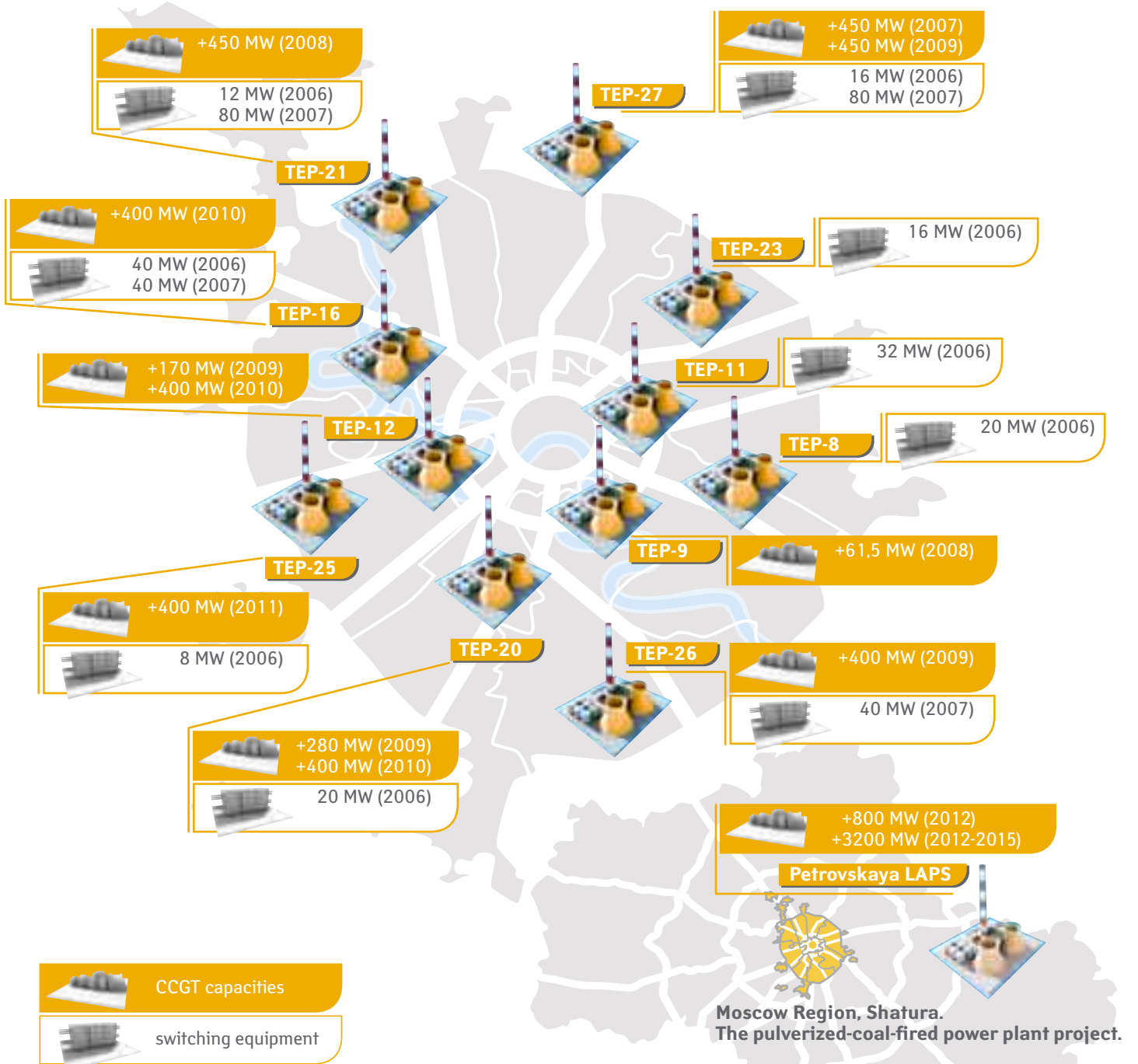
### Completed Facilities under the Technical Retooling Program in 2006

Branch	Work performed in 2006
TEP-1	Replacement of 25 MW turbine No. 31. Turbine No. 31 was commissioned
LAPS-3	Installation of the GTE-25U gas turbine with heat recovery boiler No. 2 at GTU-TEP of Elektrostal. The head sample of the 31.2 MW GTE-25U gas turbine was put into pilot commercial operation
TEP-8	The exhaust system from turbines R-50-130 Nos. 5 and 10 was refurbished with the installation of system water heaters (peak boilers). The addition capacity output is 80 MW
TEP-9	Stage one of modernization of TG-5 – refurbishment of the turbine air gas channel was completed. The turbine was commissioned. Stage two – replacement of the generator – will be completed in 2007
TEP-21	110 MW turbine No. 5 was replaced. The turbine was commissioned

### Technical Retooling Program Facilities That Are Being Implemented

Branch	Works performed in 2006
TEP-9	Agreements for supply of GTE-65 and the heat recovery boiler were concluded, designing is being carried out, and dismantling of the equipment to be replaced was commenced
TEP-12	CCPU-170. The technical requirements for the GTU were prepared
TEP-20	Pre-design works were completed for the 280-300 MW combined cycle superposed plant of the gas turbine with the heat recovery boiler, and the investment justification was prepared
TEP-21	Designing of CCPU-450T is being carried out, agreements for supply of the equipment were concluded, and construction of the main building was commenced
TEP-25	CCPU-400. Pre-design works were completed, investment justification was prepared
TEP-26	CCPU-420. Pre-design works were completed, investment justification was prepared, "turnkey" supply contract was concluded
TEP-27	CCPU-450T. Designing is being carried out, agreements for supply of the equipment were concluded, construction of the main building was completed, and installation of heat recovery boilers was commenced
TEP-28	CCPU-60C. The design was developed, and the main and auxiliary equipment is being installed

**Commissioning of new CCGT capacities and refurbishment of 10 kV switching equipment of MOSENERGO**



### 4.2. Development Prospects of the Generating Capacities

The Moscow Area Power Infrastructure Technical Retooling Concept developed by the working group of the Russian Academy of Science with the active participation of MOSENERGO specialists forecasts a growth in electric loads. The electric loads of Moscow and the Moscow Region may grow to 21 GW by 2010, to 25 GW by 2015 and to 28 GW to 2020.

To cover the prospective loads, it is necessary to create a considerably more powerful, reliable and efficient power system of the area which rationally combines both internal and external power supply scheme, optimize the generating capacity structure subject to the required maneuverability and redundancy, accomplish the task of improving the reliability of fuel supply, process water supply, launching demand and power saving management mechanisms, and evaluate the additional man-made load.

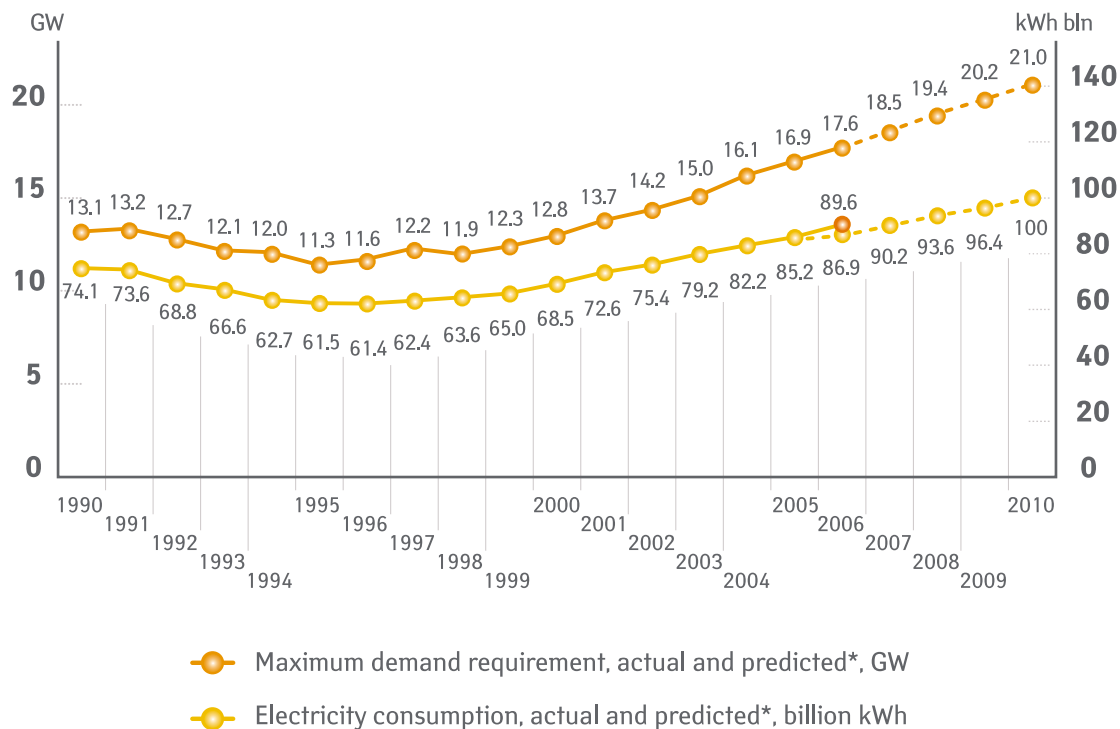
Large TEPs still play the determinant role in the system of centralized heat supply to Moscow. The token of the reliable power supply is to keep the existing TEPs sites within the city boundary. It is important to use these sites as much as possible for location of the high-performance and environmentally safe power equipment.

For metropolitan conditions, the employed power technologies should, in terms of efficiency, reliability and environmental impact, meet the high requirements developed and implemented by the world community in this sphere.

The Company's priority construction facilities are power plants situated in the electric load centers.

For gas-fired power plants, it is planned to use modern domestic CCPPs with the efficiency of 51-52% and foreign GTU-based CCPPs with the efficiency of 57-58%. For coal-fired power plants, coal technologies, including superhypercritical steam parameters with the efficiency of more than 45%, will be used.

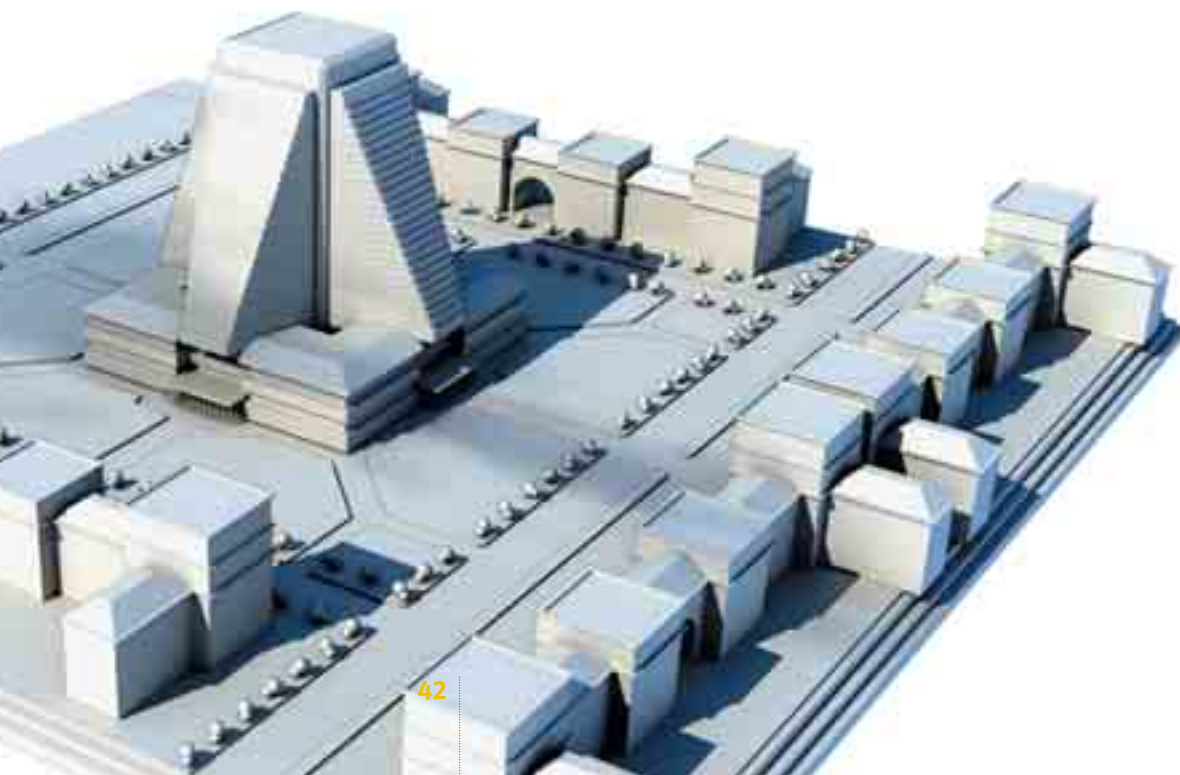
### Electric Energy and Power Demand in the Moscow Area



\* forecast at the heart of the Concept of Technical Retooling of Power Facilities of the Moscow Area.

MOSENERGO's development program envisages four phases of construction of new capacities:

<b>Phase I</b>	TEP-21 (CCPP-450)
	TEP-26 (CCPP-420)
	TEP-27 (2xCCPP-450)
<b>Phase II</b>	TEP-9 (GTE-65)
	TEP-12 (CCPP-170)
	TEP-20 (GT-280)
<b>Phase III</b>	TEP-12 (CCPP-400)
	TEP-16 (CCPP-450)
	TEP-20 (CCPP-400)
	Petrovskaya LAPS (CCPP-800)
<b>Phase IV</b>	TEP-25 (CCPP-400)
	Petrovskaya LAPS (4xCCPP-800)



## ■ INVESTMENTS IN PRODUCTION

Subject to the forecast of gas price growth, MOSENERGO follows the right course of commissioning highly efficient heating CCPPs as well as building new powerful pulverized coal-fired Petrovskaya LAPS.

In addition to new construction, MOSENERGO will have to perform a serious work to enhance the technical retooling volumes, replacing the overage heating equipment for more advanced and combined cycle equipment.

MOSENERGO's Board of Directors approved the 2007 investment program for RUR 33,357.2 million (without VAT).

The main financing sources for the investment program in 2007 and subsequent years are determined by the Company's financial policy which is based on the Company's long-term financial model.

The Company plans to use the funds raised from additional share offerings to build power units CCPP-420-450 at TEP-21, TEP-26, and TEP-27<sup>1</sup>.

Export and pre-export financing, attraction of investors, issuing bonds in the international and Russian markets, and syndicated loans are considered as external financing source options.

Work is done with fuel suppliers, potential customers of heat and electricity, creditors, and investors to promote the investment projects.

Special importance in implementation of the investment projects is attached to raising investments subject to optimization of the debt financing structure by value, currency and aging.

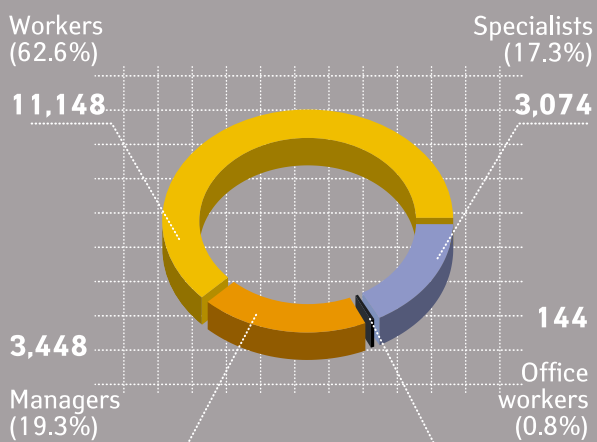
The investment program will be adjusted and refined as financing terms change, domestic manufacturers output and develop more advanced equipment with better characteristics, and competitive projects appear.

# SOCIAL RESPONSIBILITY

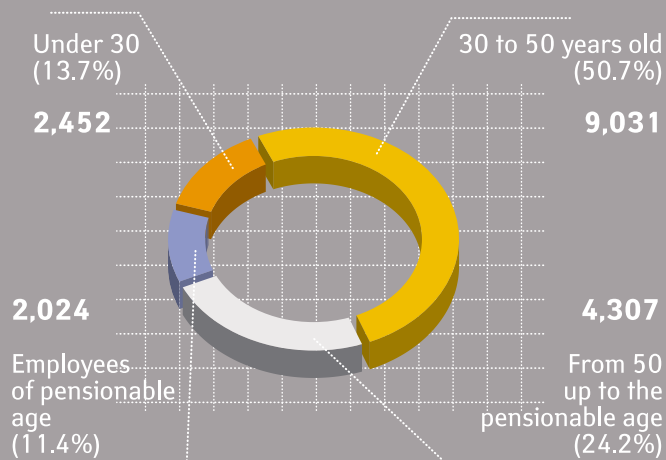
# 5

**MOSENERGO** abides by the ethical code and rules for the conduct of business, which require honesty and sincerity among the participants of business relations

**Human Resources Structure**  
(as of January 01, 2007), pers



**Employee Age Structure**  
(as of January 01, 2007), pers





## 5.1. Human Resources Management

The prime objectives of the human resources policy pursued in the Company include:

- to form professional full-time personnel that would provide for efficient operation of the power utility;
- to give vocational education, improve skills and train the personnel;
- to create conditions for self-fulfillment of every employee, their professional growth, and productivity enhancement;
- to reach the personnel stability and qualitative refining for the account of influx of newly-fledged specialists;
- to set up a personnel reserve for filling in managers;
- to strengthen work and labor discipline.

The educational level of MOSENERGO's staff is sufficiently high: 28.4% of the Company employees have a higher education, 24.8% – specialized secondary education. The Company's active roll includes 65 candidates of science and 6 doctors of science.

In 2006, MOSENERGO hired 253 young skills (twice as much as in 2005), including: 181 with higher education and 72 with specialized secondary education.

In 2006, the steps taken to optimize the Company's organizational framework reduced the number of employees by 6.0% (from 18,951 to 17,814). The General Directorate downsized 7.2% (from 544 to 505).

MOSENERGO employs a labor motivation system, which covers all personnel of the Company and includes emoluments, social benefits and guaranties.

In 2006, MOSENERGO paid for labor in accordance with its Order No. 298 "On the Scheme of Payment in MOSENERGO" dated April 18, 2005, and Regulation on Stimulating Remuneration of MOSENERGO's Top Managers approved by the Board of Directors of the Company as in force on August 14 and November 11, 2006.

An official salary of the General Director is determined versus the volume of proceeds from sales of goods, products, works and services with respect to core operations in the preceding calendar year. Official salaries of top managers are fixed in proportion to the General Director's salary.

In 2006, the procedure for fixing official salaries in proportion to the salary of the chief executive officer was extended to the branch managers: chief engineers, deputy chief engineers, chief accountants, deputy directors and directors other than top managers.

The principles of material incentives are based upon the performance indicators approved by the Board of Directors for the General Director and the Company in general: acid-test ratio, return on equity, limit of operating costs, reliability criterion, including:

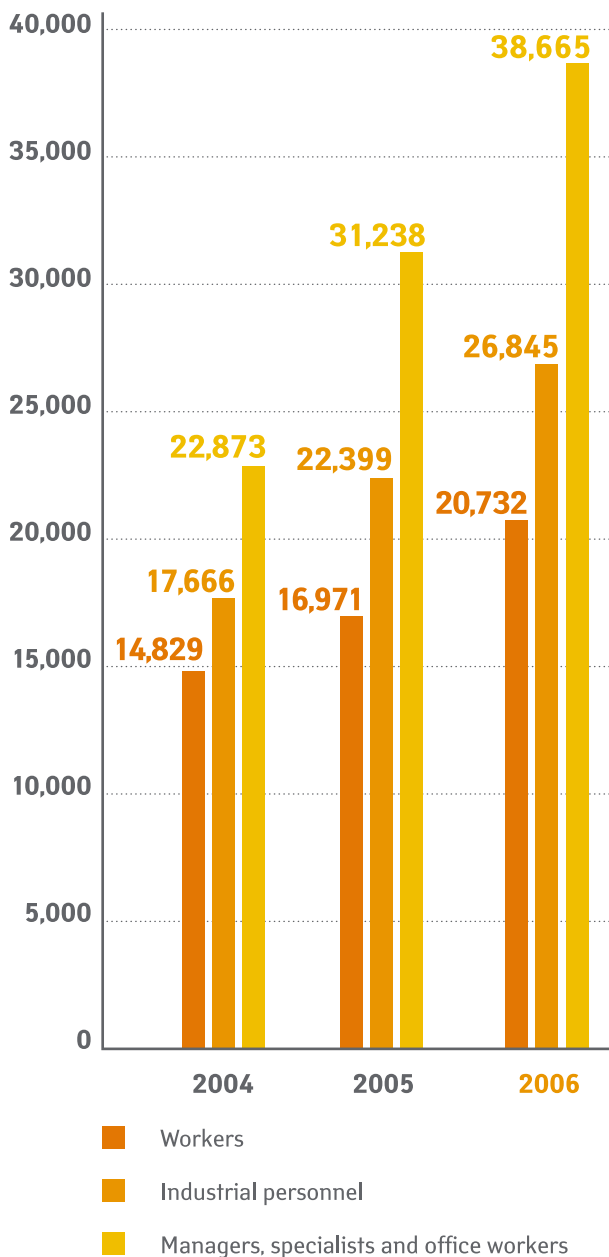
- no fatal on-the-job accidents;
- no record of disobedience of UES SO-CDU dispatcher instructions;
- no breakdowns;
- prevention of any growth of the number of breakdowns in process against the respective period of the last year;
- obtainment of the certificate of preparedness.

The above indicators are common for the managers of the joint-stock company and its branches and provide for corporate responsibility for the operating results of the Company.

Apart from general bonus indicators, the Company applies a system of individual indicators representing a personal contribution of every employee.

The average monthly wage of the industrial personnel determined on the basis of the Company's actual structure in 2006 and all lines of business totaled RUR 26,845.

**History of Average Monthly Wages Growth by Employee Categories, RUR**



In pursuance of the collective agreement, the Company provided welfare benefits, including financial aid for medical treatment during regular vacations.

Throughout 2006, work was continued to improve training and skills of MOSENERGO employees.

A total of 483 workers were trained, retrained and received a sideline training, 7,660 workers and 3,742 engineers and technicians improved their qualifications.

MOSENERGO's human investments totaled RUR 56.4 million.

The year 2006 saw 8 corporate workshops organized and held for the Company specialists that were attended by 354 participants.

MOSENERGO cooperates with the Moscow Energy Institute (MEI), the State Management Institute (SMI), the Moscow State Open University, and other educational institutions that have proper licenses and accreditations.

In 2006, 21 people were sent to the MEI for training under the "Application of gas-turbine and combined-cycle technologies at TEPs" program.

The SMI trained 6 top executives under the "MBA in the Energy Company Management" and "MBA in the Industrial Management" programs. Out of the personnel reserve, 25 people were sent for training to the SMI.

The Company offers its employees an opportunity to enroll their children in institutions of higher education under contracts with MOSENERGO with a view to ensuring intergenerational continuity in power industry. Under contracts with MOSENERGO, 18 enrollees were admitted to institutions of higher learning, of them 7 to the MEI and 11 to the SMI.

For training skills for regional branches of the Company in 2006, 14 graduates of the Moscow Region schools were sent for training to the Ivanovo State University under contracts with MOSENERGO.

Nowadays, 451 MOSENERGO employees undergo training in institutions of higher education.

33 young skills graduated from higher educational establishments under contracts with MOSENERGO and were sent to work in the power utility's branches.

The Company places high emphasis on skill development immediately at the power plants. In 2006, the following was brought into action in the training sections of the power plants operating personnel:

- a computer-based simulator of a cross-linked station equipped with two TGM-96 boilers and two T-100/110-130 turbines at TEP-8;
- a computer-based World map simulator at TEP-25.

With a view to improving professional qualification of the personnel, a system-wide competition of multiple-skill crews of operating personnel of packaged TEPs was held in November 2006 on the premises of the MOSENERGO Personnel Training Center using modern computer-based simulators.

## 5.2. Occupational Health and Safety

The economic efficiency of MOSENERGO depends on the reliable and accident-free operation of the equipment and personnel, therefore the Company pays much attention to labor protection issues.

The Company has in place an occupational safety control system which determines priorities in the protection of labor and responsibilities of MOSENERGO employees.

Pursuant to the requirements of the federal legislation, the Company conducts certifications of workplaces for labor conditions and certification of jobs for occupational safety. As of December 31, 2006, all (about six thousand) workplaces of MOSENERGO branches had been certified. The results of the workplace certification became the base for development and implementation of an action plan for improvement and sanitation of the working environment that include:

- hearing protection (provision with means of protection);
- improvement of the indoor climate (repair of ventilation and air conditioning systems);
- improvement of lighting conditions (retubing, installation of supplementary luminaries);
- prevention of eye fatigue, lowering of the light source pulsation coefficient (purchase of special glasses for computer users, electrical wiring for a three-wire PC connection with the grounding loop);
- enhancement of sanitation and housekeeping support of employees and general improvement of working conditions.

Implementation of the above measures in 2006 normalized working conditions at 289 workplaces.

With a view to prevent industrial injuries, the energy company organized:

- a monthly single Labor Safety Day, scheduled and unscheduled workplace inspections;
- provision of personnel with means of individual and collective protection, appliances that ensure safe performance of work;
- implementation of administrative and technical measures that ensure occupational safety;
- training of personnel with a view to develop its skills in the field of labor protection, job safety briefings;
- training in administering first aid to the injured;
- detection of injury-prone personnel by way of computer-aided testing;
- review, study and analysis of information about injuries in the power industry;
- holding of professional skill contests and competitive reviews for the best branch in the occupational safety practice.

Prior to commencement of the 2006 repair campaign, managers and supervisors, foremen, shift masters, and headmen received enhanced training under special programs.

RUR 326.8 million were spent on labor protection measures in 2006, including:

- RUR 46.5 million - on accident prevention;
- RUR 44.7 million - on prevention of occupational diseases;
- RUR 203.6 million - on working environment measures;
- RUR 32 million - on provision of employees with personal protective equipment.

### 5.3. Social Programs

The Company's social policy is aimed to improve the efficiency of work, the social security system and the quality of life of the Company's employees.

The social policy priorities of MOSENERGO include:

- medical attendance and insurance;
- housing program;
- treatment at sanatoria and resorts;
- recreation of children at recreational camps;
- physical culture and sports;
- culture;
- retirement insurance.

The regulation of the relationships between the Company and employees in the social labor sphere is determined by the Collective Agreement between the employer MOSENERGO and the employees.

The employer's representative is the General Director of MOSENERGO and the representative of the employees are Electropromsoyuz Moscow City and Moscow Region Committees.

The Company provides the mandatory social insurance of employees against casualties and the voluntary medical insurance.

The Company has adopted a Mortgage Housing Lending Program.

A register of the Company's employees willing to buy housing under the Mortgage Housing Lending Program is maintained.

In 2006, 100 employees of the Company obtained credit facilities from JSC Gazprombank (CJSC) to buy apartments in the Moscow City and Moscow Region. The amount of surety under the concluded agreements was RUR 242.9 million. The actual costs in 2006 for provision of special-purpose material assistance to repay the interest for using the credit facilities to JSC Gazprombank (CJSC) were RUR 4.4 million.

In the reporting year, MOSENERGO employees were provided with treatment at sanatoria and resorts at the Moscow Sanatorium Treatment Association, Medkurort Non-commercial Sanatorium Association, at sanatoria and rest homes on the Black Sea coast, in the Moscow suburbs, and Middle Russia. 3,645 vouchers to the Mosenergo treatment rest home in the Sochi City were sold for the amount of RUR 75.2 million. 3,844 persons had a rest under those vouchers.

In 2006, well-directed efforts were taken to arrange for child recreational process. 2,013 children had a rest at MOSENERGO recreational camps during the summer season.

MOSENERGO traditionally pays much attention to arranging for leisure time of employees and their children.

In 2006, MOSENERGO successfully held the 1st Physical Culture Festival of the Moscow Power System in 16 sports, the results of which became the base for composing MOSENERGO's picked teams of best athletes who prospered in various all-Russia and international competitions.

In February to March 2006, the 1st Open Arts Festival of the Powermen of the Moscow area was held. The Festival was attended by about 700 persons – MOSENERGO employees and their children.

The Health Day competitions became traditional among the heads of the branches.

Additional retirement insurance is provided in accordance with the program approved by the Company.

Non-working pensioners are provided with out-patient treatment free of charge at NMU MOSENERGO Medical Sanitary Station and with in-patient medical care at hospitals No. 83, Centrosoyuz, and Udelnoye. The expenses for free medical care of pensioners were RUR 10.7 million in 2006.

Non-working pensioners are able to buy vouchers on privileged terms within the allocated amounts for rest and sanatorium resort treatment.

The additional payments to the non-working pensioners receiving the non-state pension at NPF MOSENERGO were RUR 10.9 million.

The Company consistently takes care of the Great Patriotic War veterans providing them with fringe benefits. Welfare assistance to the veterans of the Great Patriotic War and the labor front amounted to RUR 8.2 million in 2006.

The Company has a commission for consideration of and making operative decisions on provision of additional payments above the state pension to MOSENERGO pensioners and for provision of welfare assistance to the pensioners who participated in the Great Patriotic War.

## ■ SOCIAL RESPONSIBILITY

MOSENERGO traditionally pays much attention to participation in charitable socially important projects considering that work as the confirmation of the status of a socially responsible Company.

A distinction of the charitable programs implemented by the Company is the establishment of long-term partnership relations with the establishments of culture, educational and sport organizations.

The Company actively supports the development of the domestic science providing charitable assistance to the Russian Academy of Science for the support of promising young scientists and scientific works conducted by them.

The Company has a commission which exercises planning of charitable programs and operative management of the activities for provision of charitable assistance.

MOSENERGO assistance targets include the Holy Trinity St. Serguis Lavra, Holy Virgin Assumption Temple, Nicolas Ugresh Monastery, Irina Arkhipova Fund, Peter Fomenko Workshop Theater, Kinocentr Charitable Fund of Social Protection of Cinematography Veterans, Union of Invalids of Russia, Boarding School Named After Reverend Sergius Non-state Educational Establishment, and Krylia Sovetov Moscow Hockey Club.

The Company, together with the International Culture Assistance Association is a member of the Open Europe Festival Competition of the Artistic Creativity of Children and Youth Project which was included in the New Name International Charitable Program by the Federal Council of the Federal Assembly of the Russian Federation in 2007.



## 5.4. Environmental Protection

Generation of electricity and heat is closely related to environmental impacts and taking care of the environment of the Moscow area is therefore one of MOSENERGO priorities.

The core areas in the Company's environmental protection efforts are:

- reduction in emissions of nitrogen oxides when burning gas, fuel oil and solid fuel;
- reduction in emissions of ash when burning solid fuel;
- reduction in noise of the equipment within the whole controlled range;
- reduction in discharges of wastewater from the process cycle in terms of both quantitative and qualitative indicators;
- introduction of environmental monitoring systems;
- protection of land and bodies of water, and disposal of wastes.

Environmental protection issues are resolved by the Company in close interaction with state bodies regulating the nature protection activities of the companies of the Moscow area.

Water consumption, water discharge, discharges of pollutants and disposal of wastes are carried out according to state permits and licenses.

In 2006, MOSENERGO Environmental Management System was certified according to the ISO 14001:2004 international standard for the first time in the history of the Russian electric power industry. The certification was made as part of MOSENERGO Environmental Policy Implementation Program for 2006-2008 approved by the Board of Directors of the Company.

In 2006, MOSENERGO environmental action costs were RUR 266.2 million, which is RUR 70.3 million more than in 2005 in the comparable terms.

The environmental actions were financed in 2006 from the Company's own funds and borrowed funds (EBRD loan).

## Air-Pollution Control

The share of power utilities is about 5% of all emissions in the atmosphere of the Moscow area. The prevalence of natural gas (95.7%) in MOSENERGO fuel mix makes it possible to minimize the impact of the production process on the environment of the Moscow City and Moscow Region.

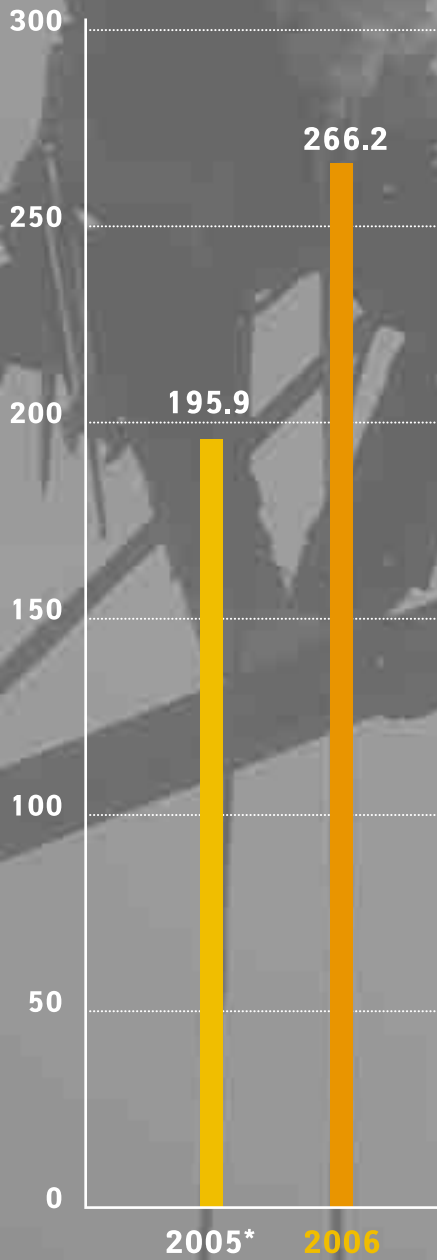
Pollutant emissions by the Company's power plants in 2006 versus 2005 generally increase from 68.3 to 79.9 thousand tons (17.1%), namely:

- particulate emissions – from 3.4 to 4.2 thousand tons;
- sulfur-dioxide emissions – from 16.9 to 23.5 thousand tons;
- nitrogen-oxide emissions – from 46.4 to 51.6 thousand tons.

The established maximum allowed emission standards were not nevertheless exceeded by all power plants for any one indicator.

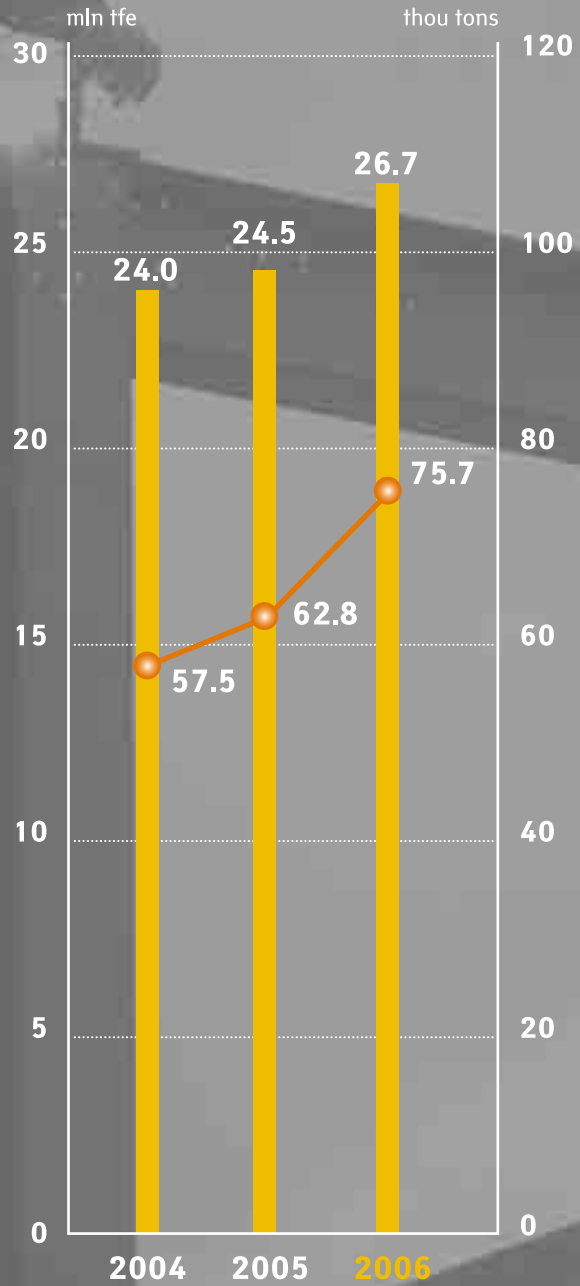
The increase of pollutant emissions in the atmosphere in 2006 is due to the increase of the total quantity of burnt fuel and increase in the share of the liquid and solid fuels with lower environmental characteristics. In 2006, the total consumption of fuel for the Company on the whole increased by 4.0% against 2005. Gas consumption increased by 3.0%, and the consumption of liquid and solid fuels raised by 44.5% and 24.4%, respectively. The fuel oil burning share considerably increased in Q1 of 2006 due to the imposition of a gas limit and operation of MOSENERGO in the high risk mode necessitated by the low air temperatures.

**Environmental action costs (net of VAT), RUR mln**



\* data on branches incorporated in the restructured Company

**Equivalent Fuel Consumption and Pollutant Emissions by Moscow TEPs (Including TEP-22)**



■ Equivalent fuel consumption, mln tfe  
 ● Pollutant emissions, thou tons



Mitigation of the technological environmental impact of the Company's operation was achieved through the Company's implementation of its environmental action plan in 2006:

Action	Objective	Efficiency
Installation of clean-burn burners at power boilers No. 6, TEP-1, Nos. 1-5, TEP-7, No. 4, TEP-20 and hot water boilers No. 1, TEP-1, No. 1 and No. 2, TEP-7, No. 4-6 and 11, TEP-21, No. 3, TEP-23		135 tons/year
Installation and modernization of flue gas recirculation systems at power boilers No. 1, TEP-6, No. 7, TEP-9 and No. 6, TEP-20		70 tons/year
Introduction of staged combustion at power boilers Nos. 1, 4 and 5, TEP-16, No. 7, TEP-26	To reduce emissions of nitrogen oxides	520 tons/year
Repair of systems supplying fuel oil for burning with hydrodynamic treatment of liquid fuel at power boilers No. 24, LAPS-3, No. 16, TEP-8, No. 10, TEP-12, No. 4, TEP-23 and No. 6, TEP-25		50 tons/year
Introduction of stationary emission monitors at TEP-1, 20, 21, 23 and 26 (10 units)		45 tons/year
Repair and modernization of the collecting electrodes shaking system of electric filters at power boilers No. 6 and No. 7, TEP-17, No. 1 and No. 4, TEP-22	To reduce coal ash emissions	3000 tons/year
Introduction of noise suppressors at peak-load boilers No. 12, TEP-8, No. 4, TEP-9, No. 2, TEP-23, No. 6, TEP-25 and downstream of the smoke exhausters of boiler No. 21, TEP-1; installation of acoustic enclosures No. 1, TEP-23	To eliminate adverse noise impact on dwelling houses	

### Water-Pollution Control

MOSENERGO's production activities are connected with a considerable consumption of water. In 2006, the Company used 584.9 million m<sup>3</sup> of water, including 4.7 million m<sup>3</sup> of drinking water for industrial needs, which is 0.7 million m<sup>3</sup> lower than the 2005 level (14.9 %).

All the power plants of the Company have the necessary permissive documentation: water use licenses, maximum allowed discharge standards, water consumption and water discharge standards per product unit, agreements for use of bodies of water and discharge of wastewater.

The works to reduce the use of potable quality water for production needs were performed during the year. As a result of rationalization of water use at TEP-8 against the 2005 level, 458.0 thousand m<sup>3</sup> of tap water were saved. TEP-9 and TEP-16 perform the work to introduce modern water treatment methods. The potable quality water saving will be more than 1.0 million m<sup>3</sup> per year.

The total quantity of wastewater discharge to surface bodies of water in 2006 was 438.4 million m<sup>3</sup>, out of them 420.1 million m<sup>3</sup> of normative clean water, and 18.3 million m<sup>3</sup> of normative treated water. The discharge of the spent liquors to the subsurface horizon is 0.022 million m<sup>3</sup>.

The negative effect on the water basins can be alleviated with cutting down the discharge of contaminants through treatment and recycling of discharge water in TEPs' technological cycle, downsizing the discharge into surface bodies of water, and disposal of solid wastes.

All power plants, except for TEP-1, have general station petroleum product treatment facilities. TEP-1 has local treatment facilities for surface discharge and fuel oil system, and general station treatment facilities are being constructed.



Wastewater Discharge,  
bln cu m/year



For the purposes of cutting water consumption and water discharge, improving the quality of wastewater and the effectiveness of wastewater treatment systems, MOSENERGO branches implemented the following measures in 2006:

Action	Objective	Efficiency
Refurbishment and setup of the makeup demineralizer wastewater neutralization systems at LAPS-3, TEP-12, 16, 21, 23 and 25	To reduce discharge of acidic and alkaline waters	63 thousand tons/year
Introduction and repair of the existing oily water treatment systems at TEP-1, GTU-TEP, TEP-6, 8, 9, 11, 16, 17, 20, 23, 25 and 26	To reduce discharge of petroleum products	40 tons/year
Modernization of salty wastewater dilution systems at TEP-16 and TEP-26	To reduce concentration of chlorides in wastewater	Treatment of ~ 600 thousand m <sup>3</sup> /year
Replacement of water traps at cooling towers No. 2, TEP-8, No. 4, TEP-16, No. 6, TEP-23 and No. 3, TEP-25	To reduce the drift loss	to the maximum allowed concentration standards
Installation, repair and adjustment of cavitation fish protection systems at TEP-1 branch and the coast pump station No. 1, LAPS-3	To protect juvenile fish	up to 0.007%
Introduction of discharge control instruments at TEP-22 and TEP-26	Ensuring on-going control of discharge water	80% (standard –70%)

### Waste Disposal

The Company has a license for handling hazardous wastes (No. M 03/0038/L dated March 3, 2004 expiring on March 3, 2009). The sphere of the licensed activities includes generation, gathering, use, decontamination, transportation and disposal (storage) of 1-5 environmental hazard class wastes.

MOSENERGO branches have waste generation normative projects and waste disposal limits (permits) which specify the methods of use, decontamination and disposal places. Wastes are delivered to other organizations for processing and decontamination or further recycling (e.g. metal scrap) or for disposal at urban ore sites under agreements with organizations licensed to operate in that area in strict compliance with the environmental requirements. The bulk (99.3%) of wastes are composed of hazard class 5 wastes, namely ashes from burnt coal. They are disposed of at the Company's own sites – ash dumps.

For MOSENERGO, the slogan "Towards Light, Warmth and Friendly Environment!" is not just words but a guideline. The youngest power plant of the Company, TEP-27, was based on the advanced development and achievements in generation of heat and electricity and minimization of the harmful impact on the environment. Today, TEP-27 is one of the most "clean" plants not only in Russia but also in the world. MOSENERGO's objective is to make sure that all the branches of the Company meet the highest environmental standards.



# CORPORATE GOVERNANCE

# 6

In November 2006,  
the Board of Directors of  
the Company approved  
the Corporate Governance  
Code of **MOSENERGO**



MOSENERGO regard the corporate governance as a means of making the Company activities more efficient, consolidating its reputation and ensuring the interaction between the Board of Directors, executive bodies of the Company and shareholders in the interests of the shareholders.

Pursuant to Article 9 of the MOSENERGO Charter, the management bodies of the Company shall be:

- the General Meeting of shareholders;
- the Board of Directors;
- the Executive Board;
- the General Director.

A body supervising financial and business operations of the Company is the Audit Commission.

## 6.1. Corporate Governance Principles

The corporate governance principles of the Company are based on the regulatory and legal acts that include the legislation of the Russian Federation and internal documents of MOSENERGO<sup>1</sup> approved by the general meeting of shareholders and by the Company's Board of Directors.

In November 2006, the Board of Directors of the Company approved the Corporate Governance Code of MOSENERGO<sup>1</sup> conforming to the Corporate Governance Code of the Federal Commission for Securities Market, as well as to the generally accepted corporate governance principles of the Organization for Economic Cooperation and Development.

The corporate governance in the Company is based upon the following principles:

- accountability of the Board of Directors of the Company to its shareholders and accountability of the executive bodies of the Company to the Board of Directors in accordance with the current legislation;
- fairness in exercising shareholder rights, equal treatment of all shareholders, efficient protection of shareholder rights;
- transparency and timeliness of disclosure of authentic information about material facts pertaining to the Company's activities, free access to the relevant information for all interested parties;
- liabilities to shareholders and other parties, efforts towards cooperation aiming at the financial stability and development of the Company.

<sup>1</sup> 1.7.

To all its shareholders and investors MOSENERGO guarantees enforceability of their rights protection of which is secured through:

- registration of share ownership;
- keeping and safe custody of the Company's share register pursuant to Articles 44, 45 and 46 of the Federal Law "On Joint Stock Companies";
- the ability of free and quick alienation of the shares belonging to the shareholders;
- the right to take part in the Company management by way of participation in General Meetings of shareholders with a right to vote on all issues within its competence, participation of shareholder representatives in the work of the Board of Directors and other bodies of the Company management and supervision;
- participation in the Company's profits in the form of dividends;
- the right to receive true information about the Company regularly and in time.

The all-round information support of the Company activities is the main task of MOSENERGO's Press Service. Thanks to regular press conferences, briefings and press tours to various MOSENERGO facilities, journalists of the national and regional mass media receive accurate, current and copious information about the Company activities. MOSENERGO's official site is an important source of information and an effective means of communication ([www.mosenergo.ru](http://www.mosenergo.ru)).

The Company publishes its quarterly and annual reports to the shareholders, in which it covers the key areas of production and financial operations and carries out economic analysis of the results of its work for the accounting period<sup>1</sup>.

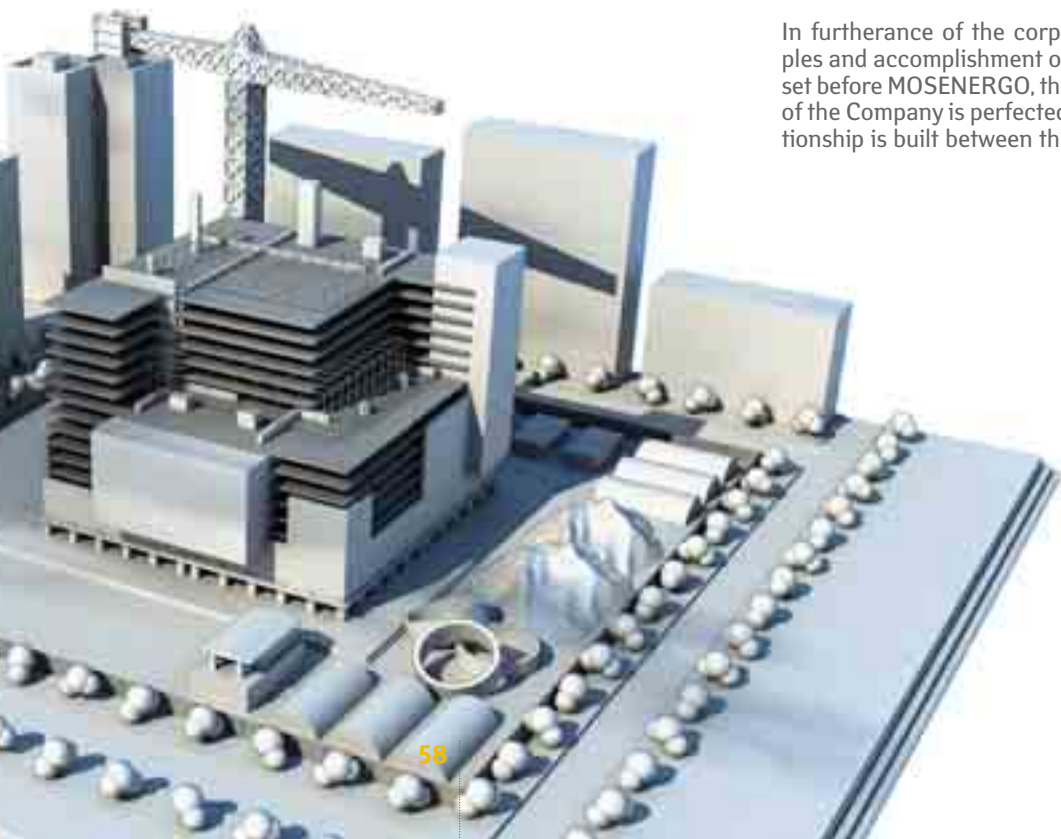
The quality of MOSENERGO's business management is controlled and assessed by the Board of Directors, Audit Commission, Audit Committee of the Board of Directors, internal audit directorate, and an external auditor of the Company.

For the purpose of improving the corporate governance and as consistent with Russian and international standards, the Company established Committees of the Company's Board of Directors. The Board of Directors approves MOSENERGO's internal documents and standards regulating various aspects of the Company's relations with shareholders, regulatory and governmental authorities, parties contracting in the course of the Company's financial and economic activities<sup>2</sup>.

Governance of organizations with the participation of MOSENERGO is exercised in compliance with the procedure established by the Board of Directors. MOSENERGO representatives participate in general meetings, meetings of the governing bodies and other corporate events held by subsidiary and associated companies, non-profit and other organization of which the Company is a member.

At the same time, the Company plans include measures to terminate its membership in a number of organizations involved in non-core, for MOSENERGO, activities.

In furtherance of the corporate governance principles and accomplishment of the goals and objectives set before MOSENERGO, the organizational structure of the Company is perfected and an appropriate relationship is built between the branches.





## 6.2. Meeting of Shareholders

The crest of MOSENERGO's corporate governance structure is the General Meeting of shareholders. The procedure for holding and preparation of General Meetings is consistent with the Law "On Joint Stock Companies", is determined by the Company's Charter, and conforms to the optimum corporate governance practice. The established procedure provides for *pari passu* ranking of all members of the Company.

The General Meeting of MOSENERGO's shareholders was held on May 26, 2006, to discuss the Company's production and economic performance in 2005<sup>1</sup>.

The Meeting of shareholders approved: the annual report of the Company, the annual financial statements, the profit and loss statement based on the financial year results, distribution of the Company's Profits based on the annual returns of 2005, the rate of dividends payable per share. Elected the Board of Directors of the Company and the Audit Commission, approved PricewaterhouseCoopers Audit, a private company, as its auditor for the next period. A resolution on payment of remuneration and compensations to members of the Board of Directors and Audit Commission was passed, and amendments to the internal documents of the Company were adopted.

Within the framework of preparation for reopening of issues of the Company shares, an Extraordinary Meeting of MOSENERGO's shareholders was held on December 20, 2006, by absentee voting<sup>2</sup>. The Meeting decided on the size of the authorized shares, on introduction of appropriate amendments to the Company's Charter, and on an increase of the Company's charter capital. The Extraordinary Meeting of shareholders by its resolution approved the interested-party transactions for placing additional MOSENERGO shares for the benefit of Gazprom Group.

## 6.3. Board of Directors

The Board of Directors of MOSENERGO administers the Company in concordance with the Company's Charter as amended by the annual general meeting of shareholders on May 26, 2006<sup>3</sup>.

In 2006, as in the past years, the Board of Directors consisted of 13 members.

In terms of individual members, the Board of Directors elected at the Annual General Meeting of the Company Shareholders on May 26, 2006, changed greatly.

As a result of elections of the members of the Board of Directors, A.F. Bodunkov, D.V. Vasiliev, O.M. Dubnov, A.V. Kuznetsov, A.V. Chikunov and D.V. Shtykov vacated their offices.

The following new members were elected to the Board of Directors: I.Sh. Zagretdinov, Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia; E.I. Logovinskiy, Deputy Chairman of the Executive Board, OAO SOGAZ; A.A. Negomedzyanov, First Deputy General Director for Financial and Economic Issues, Logistics and Sales, MOSENERGO; M.N. Pichugina, Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia; W. Skribot, Director, Corporate Finance Department, JSB Gazprombank (CJSC); S.S. Fil, Head of the Department of Corporate Events, Business Unit No. 1, RAO UES of Russia.

 <sup>1</sup> p. 158  
 <sup>2</sup> p. 161

 <sup>3</sup> 1.5.

## MEMBERS OF THE BOARD OF DIRECTORS

(elected at the Annual General Meeting of the Company Shareholders on May 26, 2006)

### **Yuriy Arkadievich Udaltsov**

**Chairman of the Board of Directors, MOSENERGO; Member of the Executive Board, Head of the Reform Management Center, RAO UES of Russia**

Previous offices (over the last 5 years): Head of the Department for Energy Reform, RAO UES of Russia; Head of the Corporate Strategy Department, RAO UES of Russia; Director General, OOO Carana

### **Anatoly Yakovlevich Kopsov**

**Chairman of the Executive Board, MOSENERGO, General Director, MOSENERGO**

Previous offices (over the last 5 years): Director, Capital Construction Directorate, RAO UESR Corporate Center, Director for Construction of Generation Facilities, RAO UES of Russia, Adviser to the Chairman of the Executive Board, RAO UES of Russia

### **Yevgeny Ilyich Logovinsky**

**Deputy Chairman of the Executive Board, OAO SOGAZ**

Previous offices (over the last 5 years): Deputy General Director, OAO SOGAZ; Deputy General Director for Economics and Finance, ZAO Leader (the Pension Fund Assets Management Company); Audit Department Manager, ZAO PricewaterhouseCoopers Audit





**Wolfgang Skribot**

**Managing Director,  
Corporate Finance Department,  
JSB Gazprombank (CJSC)**

Previous offices (over the last 5 years):  
Deputy General Director,  
"Gazprombank-Invest" (LLC);  
Director, Corporate Finance  
Department, ZAO UFG

**Maria Nikolayevna Pichugina**

**Deputy Managing Director,  
Executive Director, Business  
Unit No. 1, RAO UES of Russia**

Previous offices (over the last 5 years):  
Deputy Head, Project Manager, Analyst of the Center for Implementation of AO-Energo Restructuring Projects, RAO UES of Russia; Head of Section, Chief Specialist of the Financial and Management Consulting Section, Chief Specialist of the Methodology and Financial Analysis, Management Consulting Section, OAO "Center for Settlement of Accounts Receivable and Accounts Payable of the Unified Energy System" "UES Settlement Optimization Center", Financial Analyst, ZAO "Anvalt" Examination and Consultation Center

**Sergey Sergeyevich Fil**

**Head of the Department  
of Corporate Events, Business  
Unit No. 1, RAO UES of Russia**

Previous offices (over the last 5 years):  
Acting Head of the Corporate Events  
Section, Chief Specialist, Leading  
Specialist, Category 1 Specialist,  
Corporate Governance Department,  
RAO UES of Russia



**Alexander  
Alexandrovich  
Negomedzyanov**

**First Deputy General Director  
for Financial and Economic  
Issues, Logistics and Sales,  
MOSENERGO**

Previous offices (over the last 5 years):  
Deputy Managing Director, Executive  
Director, Business Unit No. 1,  
RAO UES of Russia; Director  
of Operations, RAO UES of Russia;  
Head of the Connection Fee  
Department, RAO UES of Russia

**Ilias  
Shamilevich  
Zagretdinov**

**Deputy Managing Director,  
Executive Director, Business  
Unit No. 1, RAO UES of Russia**

Previous offices (over the last 5 years):  
First Deputy Head, Deputy Head of the  
Inspectorate-General Department  
for Operation of Electric Power  
Plants and Grids, RAO UES of Russia

**Alexander  
Ivanovich  
Sobol**

**Deputy Chairman of the  
Executive Board,  
JSB Gazprombank (CJSC)**

Previous offices (over the last 5 years):  
Deputy Chairman of the  
Executive Board,  
JSB Gazprombank (CJSC)



**Pavel Stepanovich Smirnov**

**Member of the Executive Board, RAO UES of Russia**

Previous offices (over the last 5 years):  
Member of the Executive Board, RAO UES of Russia

**Anatoly Anatolievich Gavrilenko**

**General Director, ZAO Leader (the Pension Fund Assets Management Company)**

Previous offices (over the last 5 years):  
Director for Strategic Financial Planning, ZAO Alor Invest

**Pyotr Nikolayevich Aksenov**

**First Deputy Mayor of Moscow in the Moscow Government, Head of the Municipal Services and Facilities of Moscow**

Previous offices (over the last 5 years):  
Prefect of the Southern Administrative District of Moscow

**Aleksey Anatolievich Matveyev**

**Deputy Chairman of the Executive Board, JSB Gazprombank (CJSC)**

Previous offices (over the last 5 years):  
Adviser to the Chairman of the Executive Board, JSB Gazprombank (CJSC);  
Managing Director, ZAO Troika Dialog Investment Company



**Composition of the members of the Board of Directors,  
elected at the Annual General Meeting of the Company shareholders on May 26, 2006**

Full name	Year of birth	Citi-zen-ship	Education	Shareholding in the Company, %	Date of the first election to the Company's Board of Directors
Yuriy Arkadievich Udaltsov	1961	Russia	Higher, Candidate of Physical and Mathematical Sciences	Holds no MOSENERGO shares	28.06.2004
Pyotr Nikolayevich Aksenov	1946	Russia	Higher, Candidate of Economics	Holds no MOSENERGO shares	28.06.2004
Anatoly Anatolievich Gavrilenko	1972	Russia	Higher	Holds no MOSENERGO shares	28.06.2005
Ilias Shamilevich Zagretdinov	1956	Russia	Higher	0,0004	26.05.2006
Anatoly Yakovlevich Kopsov	1942	Russia	Higher, Doctor of Engineering, Professor	0,0015	22.04.1996
Yevgeny Ilyich Logovinsky	1972	Russia	Higher, Candidate of Economics	Holds no MOSENERGO shares	26.05.2006
Aleksey Anatolievich Matveyev	1963	Russia	Higher	Holds no MOSENERGO shares	28.06.2004
Alexander Alexandrovich Negomedzyanov	1952	Russia	Higher	Holds no MOSENERGO shares	26.05.2006
Maria Nikolayevna Pichugina	1980	Russia	Higher	Holds no MOSENERGO shares	26.05.2006
Wolfgang Skribot	1966	Austria	Higher	Holds no MOSENERGO shares	26.05.2006
Pavel Stepanovich Smirnov	1952	Russia	Higher, Candidate of Legal Sciences, Doctor of Economics	Holds no MOSENERGO shares	18.05.2001
Alexander Ivanovich Sobol	1969	Russia	Higher, Candidate of Economics	Holds no MOSENERGO shares	28.06.2004
Fil Sergey Sergeevich	1980	Russia	Higher	Holds no MOSENERGO shares	26.05.2006

The first meeting of the new Board of Directors unanimously elected Yu.A. Udaltsov, Member of the Executive Board, RAO UES of Russia, Head of the Reform Management Center, RAO UES of Russia, as its Chairman, and P.S. Smirnov, Member of the Executive Board, RAO UES of Russia, as the Deputy Chairman.

The new Board of Directors includes 8 independent directors.

Throughout 2006, the Board of Directors held 31 meetings.

The major decisions made by the Board of Directors are as follows:

- approval of the critical for implementation of the MOSENERGO Investment Program agreements with OAO Power Machines for supply of equipment required for construction and commissioning of new CCP-based capacities at TEP-21 and TEP-27 as interested-party transactions;
- approval of the awarding of the contract for construction of the CCP-420 power unit at TEP-26 to ALSTOM Ltd and EMalliance as a transaction in excess of 2.0 percent of the book value of MOSENERGO;
- putting through a complete cycle of necessary corporate procedures for preparation and implementation of an additional issue of MOSENERGO shares including holding of an extraordinary meeting of the Company shareholders on December 20, 2006;
- decision-making on revaluation of MOSENERGO fixed assets as of January 01, 2007;
- update and approval of the MOSENERGO Investment Program for 2007-2011.

Within its terms of reference, the Board of Directors carried out systematic monitoring of how the approved business plan is implemented by the Company management by hearing quarterly and annual reports of the General Director on a broad range of indicators.

An individual question on the agenda in October 2006 was MOSENERGO Chief Engineer's report on the results of the repair campaign in the power utility branches and power plants preparedness for 2006/2007 fall-winter peak loads.

The Board of Directors at its meetings considered a question "Concerning the Company operation in the environment of the New Electric Energy and Power Market", as well as approved a Cost Control Program for 2007-2008.

In 2006, MOSENERGO's Board of Directors approved 293 interested-party transactions<sup>1</sup>.

In 2006, MOSENERGO made no major transactions that require approval of the management bodies of the Company pursuant to the Federal Law "On Joint Stock Companies".

Information about decisions adopted by MOSENERGO's Board of Directors is available on the Company's website<sup>2</sup>.

The size of and procedure for payment of remunerations and compensations to the members of MOSENERGO's Board of Directors are established by the Regulation on Payment of Remuneration and Compensations to the Members of the Board of Directors<sup>3</sup> approved by the general meeting of shareholders on May 26, 2006. In pursuance of this Regulation, all members of the Board of Directors shall receive the following types of remunerations:

#### **1. A remuneration for the participation in the meetings of the Board of Directors.**




The ground for payment of the remuneration is the fact of a Director's participation in/presence at the meeting conducted either in person or in a mixed form (partly with personal attendance and partly by remote poll) recorded in the Minutes of the Board meeting. The base for calculation of this remuneration is the minimum monthly base wage of a first class worker indexed as on the day of the meeting of the Board of Directors.

#### **2. A bonus on the net profit.**

The ground for payment is availability of a net profit in the reporting year as evidenced by the annual financial statements approved by the annual general meeting of shareholders.

#### **3. A bonus on the market capitalization.**

The amount of remunerations paid to the members of the Board of Directors in 2006 totaled RUR 7,260,153.

 1 3.2.1.  
 2 3.3.5.  
 3 1.7.

## **Committees of the Board of Directors**

**The Human Resources and Remuneration Committee:** Chairman: W. Skribot; members: P.N. Aksenov, A.A. Gavrilenko, A.A. Matveyev, M.N. Pichugina, P.S. Smirnov, S.S. Fil.

The Human Resources and Remuneration Committee encourages attraction of skilled experts to the management of the Company and the creation of incentives necessary for them to work effectively.

In 2006, the Committee held three meetings where it discussed the issues relating to the Collective Agreement, non-governmental pension schemes for the Company employees, the expediency of implementation of MOSENERGO's option program, and a revised version of the Regulation on Stimulating Remuneration of the Company's Top Managers. Conclusions based on the results of the discussion of the above issues were reported to the members of the Board of Directors.

**Audit Committee:** Chairman: M.N. Pichugina; members: P.N. Aksenov, A.I. Sobol, E.I. Logovinsky, P.S. Smirnov.

The Audit Committee functions include: to advise on a candidate for the position of MOSENERGO's auditor, to assess the Auditor's Report, to analyze efficiency of the Company's internal audit procedures, and to prepare proposals on how to perfect them.

In 2006, the Committee held four meetings where it discussed the issues relating to revaluation of MOSENERGO's fixed assets, organization of the internal control system of the Company, as well as issues of the Company's cooperation with the auditor in preparation and approval of MOSENERGO's consolidated financial statements.

**The Reliability Committee:** Chairman: I.Sh. Zagret-dinov; members: V.L. Shchedrolyubov, V.S. Pavlikov, S.A. Pronin, B.P. Modin, V.G. Pleshivtsev, P.S. Molchanov, D.V. Stepanov, O.A. Timofeyev.

The Committee's main objectives are to produce and offer its recommendations (opinion) to the Board of Directors relating to the following issues: examination and analysis of implementation of investment programs and plans for repair of power facilities from the viewpoint of assurance of the integrated reliability requirements; assessment whether the measures taken are comprehensive and sufficient using the aftermath of accidents and serious breakdowns in process as a criterion, including follow-up actions; control and assessment of the work done by the Company's technical services with regard to assurance of reliable performance of generation equipment; analysis of actions taken to implement the contractual and economic mechanisms of reliability control.

Experience of the Audit Committee and the Human Resources and Remuneration Committee has shown that preliminary consideration of matters at their meetings allows more detailed and thorough discussion of the pending questions with the participation of management representatives, formation of a decided opinion, which is brought to notice of the members of the Board of Directors and comes into account during decision making on the matters under discussion.

Proceeding from the need to accomplish an extensive work on implementation of MOSENERGO's Investment Program for 2007-2011, the Board of Directors arrived at a decision in December 2006 that an **Investments Committee** should be created and approved the Articles of the Committee.

The primary purpose of the Investments Committee is preliminary consideration and discussion of matters relating to the investment activities of the Company, monitoring of the progress of the investment projects, as well as drawing up of recommendations to the Board of Directors for refining and development of the Company's investment policy and mechanisms for preparation, approval and implementation of the Company's investment project and programs.

## 6.4. Executive Bodies

MOSENERGO's day-to-day operations are administered by a sole executive body represented by the General Director, and a collegial executive body represented by the Executive Board, who are accountable to the general meeting of shareholders and to the Board of Directors of the Company.

The Director General is elected by the Board of Directors of the Company. Members of the Executive Board of the Company are nominated by the General Director of the Company and elected by the Board of Directors to the number determined by the Board of Directors.

The rights and duties of the General Director and members of the Executive Board<sup>1</sup> with regard to the administration of day-to-day operations of the Company are determined by the Russian Federation law, the Company's Charter<sup>2</sup>, Articles of the Executive Board<sup>3</sup>, as well as the employment contract concluded by each of them with the Company.

The Company's Executive Board is responsible for the practical achievement of the goals, pursuance of the development strategy and policies of the Company formed by resolutions of the general meeting of shareholders and the Board of Directors of the Company.

In 2006, the Executive Board held 56 meetings where it discussed 286 issues related to the day-to-day operations and prospects of the Company. Of all meetings five were held by absentee voting.

The Executive Board at its meetings regularly considered such questions as:

- financial standing of the Company;
- progress of the capital construction and remedial maintenance versus the plan;
- review of the technical and economic performance of MOSENERGO;
- stockpiling of and payment for fuel;
- preparation for the fall and winter of 2006/2007;
- inventory of the accounts receivable and payable, provisioning for doubtful debts.

For further development of the Company's power facilities and enhancement of reliability of energy supplies to the Moscow area consumers, the Executive Board considered a number of important matters, on which it reached the following decisions:

- MOSENERGO's investment program for 2006-2007 – accepted and approved by the Board of Directors for 2006;
- a Moscow power system reliability and survivability improvement program - accepted and approved by the Chief Engineer;

- a draft program for introduction and development of automation equipment at the Company's power plants - it was resolved that it should be refined and submitted for approval to the General Director;
- a draft perspective program for retrofitting equipment of water treating plants of chemical shops of power plants for 2006-2009 accepted, the program was included in MOSENERGO's investment program for 2007-2011.

In 2006, the Executive Board of MOSENERGO also thrashed over, accepted and submitted for approval of the Board of Directors a number of the Company's policy documents:

- the main aspects of MOSENERGO's strategy;
- the 2007 repair program for MOSENERGO's power plants – it was resolved that in 2007 maintenance operations conducted on a contractual basis should be reformed at five TEPs;
- a Cost Control Program for 2006, as well as for 2007-2008 – recommended to the Board of Directors for approval;
- an annual integrated procurement program for 2006 and a similar draft program for 2007;
- the Regulation on the Economic Mechanism of MOSENERGO;
- a program for non-governmental pension benefits for MOSENERGO employees - recommended to the Board of Directors for approval;
- a 2007 program for insurance coverage of MOSENERGO – recommended to the Board of Directors for approval.

In its work in 2006, the Executive Board paid special attention to the review of financial and economic performance of the Company branches: it heard reports of directors of 11 branches and adopted decisions aimed to gain in performance of the said branches.

The Executive Board placed high emphasis on the issues relating to preparation and holding of the annual general meeting of the Company shareholders based on the balance of the work for 2005.

The Executive Board regularly dealt with social issues related to further development of the human resource management system and personnel motivation, pay increase, retirement insurance of the Company employees, as well as charities and sponsorship. The Executive Board also routinely checked adherence to the previous decision.

 1 1.2.2.

 2 1.5.

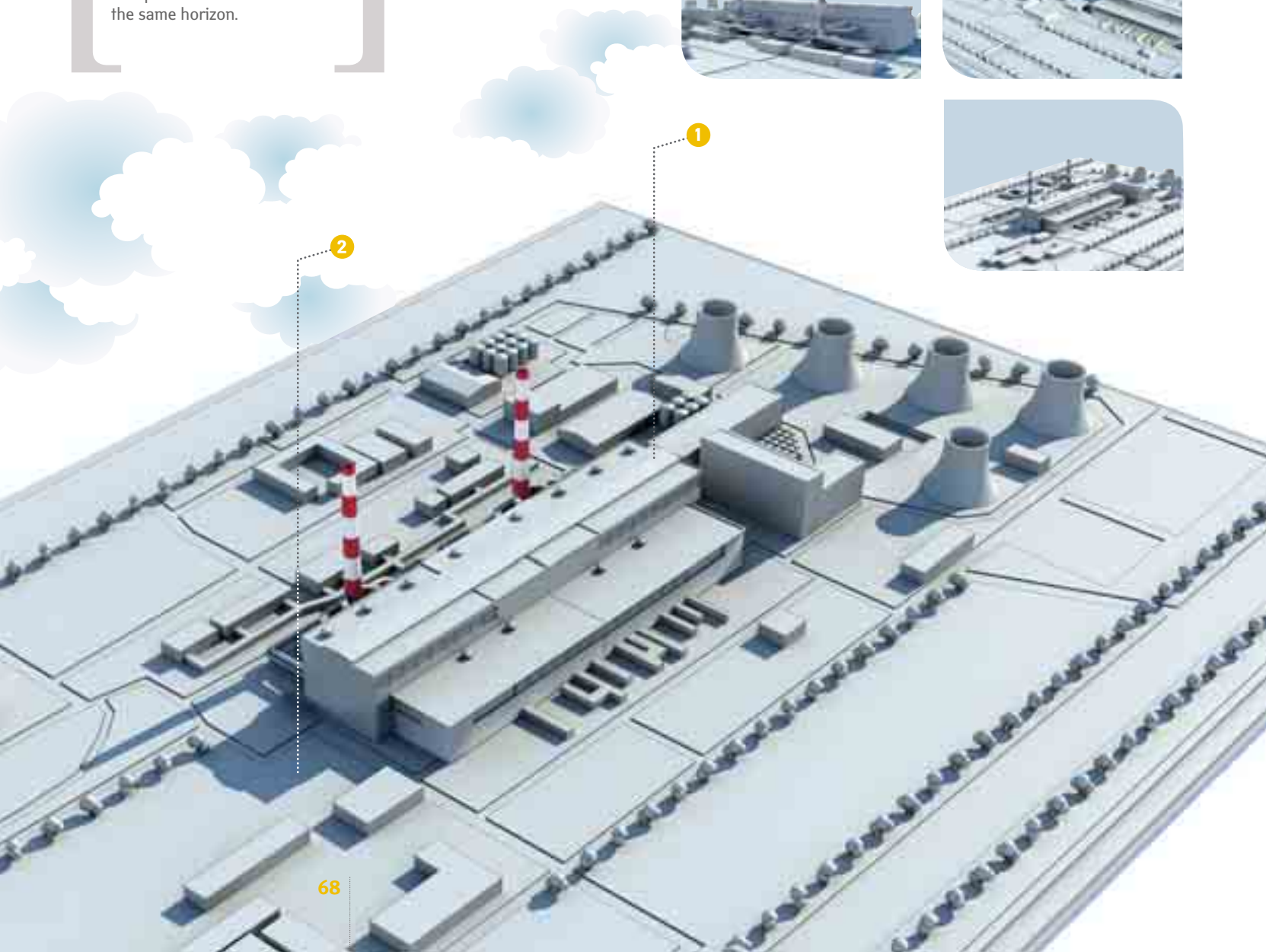
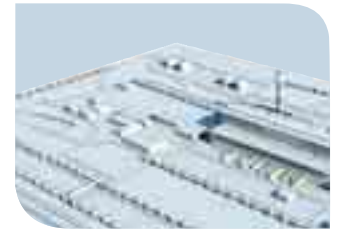
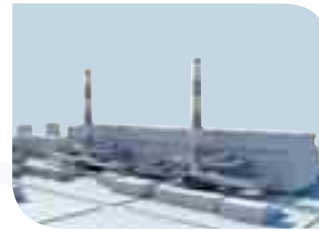
 3 1.7.



**TEP-26** commissioned on  
March 30, 1979.  
Installed electrical  
capacity – **1,410** MW,  
heat capacity – **4,006** Gcal/h.

- ① Main building
- ② Construction site of power unit No. 8

A unique system of brines extraction from a depth of 1350 meters is introduced at TEP-26 for regeneration of water filters and re-injection of waste brines into the same horizon.







# TEP

# 26

In 2006, **TEP-26** set about preparing a site for construction of a new **CCP-420-based power unit No. 8**. The power unit will become the most efficient CCGT unit in Russia with the efficiency reaching **59%**.  
In 2006, **MOSENERGO** and **Alstom** (France) signed a turnkey contract for construction of **power unit No. 8**.

## MEMBERS OF THE EXECUTIVE BOARD

### **Anatoly Yakovlevich Kopsov**

**General Director, MOSENERGO, Chairman of the Executive Board, MOSENERGO**

Previous offices (over the last 5 years):  
Director, Capital Construction Directorate, RAO UESR Corporate Center, Director for Construction of Generation Facilities, RAO UES of Russia, Adviser to the Chairman of the Executive Board, RAO UES of Russia

| year of birth – 1942  
| citizenship – Russia  
| education – Higher, Doctor of Engineering, Professor  
Holds 0,0015% of MOSENERGO shares

### **Dmitry Alexandrovich Barshak**

**Director for Thermal Engineering, MOSENERGO**

Previous offices (over the last 5 years):  
Deputy Chief Engineer for Thermal Engineering, MOSENERGO

| year of birth – 1956  
| citizenship – Russia  
| education – Higher, Candidate of Engineering  
Holds 0,0017% of MOSENERGO shares

### **Yevgeny Ivanovich Borisov**

**Deputy General Director for Finance, MOSENERGO**

Previous offices (over the last 5 years):  
Authorized Representative to the Federal Bodies of Executive Power, Corporate Center for the Finance and

Credit Department, RAO UES of Russia; Project Manager, Center for Implementation of AO-Energo Restructuring Projects, RAO UES of Russia (pluralistically), Head of the Financial Control and Forecasting Department, RAO UES of Russia

| year of birth – 1950  
| citizenship – Russia  
| education – Higher, Doctor of Economics, Professor  
Holds no MOSENERGO shares

### **Dmitry Valerievich Vasiliev**

**First Deputy General Director for Strategy and Corporate Policies, MOSENERGO**

Previous offices (over the last 5 years):  
First Deputy General Director of MOSENERGO – Managing Director for Corporate Policies and Property Management; First Deputy General Director for Corporate Policies and Property Management, MOSENERGO; Chairman of the Board of Directors, Association for Protection of Investor Rights; Executive Director, Autonomous Non-commercial Organization "Institute of Corporate Law and Management"

| year of birth – 1962  
| citizenship – Russia  
| education – Higher  
Holds no MOSENERGO shares

### **Yuri Leonidovich Guskov**

**Director of TEP-21, a MOSENERGO branch**

Previous offices (over the last 5 years):  
Director of TEP-21, a MOSENERGO branch

| year of birth – 1938  
| citizenship – Russia  
| education – Higher, Candidate of Engineering  
Holds no MOSENERGO shares

### **Yuriy Efimovich Dolin**

**Deputy General Director for Capital Construction and Procurement, MOSENERGO**

Previous offices (over the last 5 years):  
Deputy General Director for Logistics and Procurement, MOSENERGO; Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia; Head of the Fuel Supply Department, RAO UES of Russia

| year of birth – 1949  
| citizenship – Russia  
| education – Higher  
Holds no MOSENERGO shares

### **Tatiana Petrovna Dronova**

**Chief Accountant, MOSENERGO**

Previous offices (over the last 5 years):  
Deputy Head of the Accounting and Reporting Department, ROSENERGOATOM Concern, Ministry of Atomic Energy of the Russian Federation

| year of birth – 1954  
| citizenship – Russia  
| education – Higher  
Holds 0,0017% of MOSENERGO shares

### **Aleksey Nikolayevich Karev**

**Director of the CRMZ (Central Mechanical Repair Workshop), a MOSENERGO branch**

Previous offices (over the last 5 years):  
Director of the CRMZ (Central Mechanical Repair Workshop), a MOSENERGO branch

| year of birth – 1941  
| citizenship – Russia  
| education – Higher, Doctor of Engineering, Academician  
Holds 0,014% of MOSENERGO shares

### **Vladimir Anatolievich Kimerin**

**General Director, OAO Mosenergosbyt, Deputy General Director for Energy Sales, MOSENERGO (pluralistically)**

Previous offices (over the last 5 years): Deputy Head of Department – Head of Section, First Deputy Head of Department, Head of Department, Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia

| year of birth – 1963  
| citizenship – Russia  
| education – Higher  
Holds no MOSENERGO shares

### **Vasily Yakovlevich Krivososov**

**Deputy General Director for General Affairs, MOSENERGO**

Previous offices (over the last 5 years): First Deputy General Director, OAO Volgaenergosnabkomplekt; Deputy General Director, Acting Deputy General Director for General Affairs; Head of the Marketing Section, OAO Vladimirenergo

| year of birth – 1955  
| citizenship – Russia  
| education – Higher  
Holds no MOSENERGO shares

### **Anatoly Pavlovich Kuleshov**

**Director for Capital Construction, MOSENERGO**

Previous offices (over the last 5 years): Deputy General Director for Capital Construction, MOSENERGO; Director of Complete Equipment Supply Company, a MOSENERGO branch

| year of birth – 1954  
| citizenship – Russia  
| education – Higher  
Holds 0,0035% of MOSENERGO shares

### **Alexander Alexandrovich Negomedzhanov**

**First Deputy General Director for Financial and Economic Issues, Logistics and Sales, MOSENERGO**

Previous offices (over the last 5 years): Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia; Director of Operations, RAO UES of Russia; Head of the Connection Fee Department, RAO UES of Russia

| year of birth – 1952  
| citizenship – Russia  
| education – Higher  
Holds no MOSENERGO shares

### **Sergey Yurievich Rumyantsev**

**Deputy General Director for Economics, MOSENERGO**

Previous offices (over the last 5 years): Deputy Chairman of the Executive Board for Finances and Payments, NP ATS; Finance Director, ZAO DitGaz

| year of birth – 1956  
| citizenship – Russia  
| education – Higher, Candidate of Economics  
Holds no MOSENERGO shares

### **Vladimir Valentinovich Sergeev**

**First Deputy General Director – Chief Engineer, MOSENERGO**

Previous offices (over the last 5 years): Director of TEP-20, a MOSENERGO branch

| year of birth – 1957  
| citizenship – Russia  
| education – Higher, Candidate of Engineering  
Holds 0,014% of MOSENERGO shares

### **Nestor Ivanovich Serebryanikov**

**Adviser to the General Director, MOSENERGO**

Previous offices (over the last 5 years): Adviser to the General Director, MOSENERGO

| year of birth – 1929  
| citizenship – Russia  
| education – Higher, Doctor of Engineering  
Holds 0,0003% of MOSENERGO shares

The amount of payments to the General Director of the Company is determined in accordance with the Regulation on Stimulating Remuneration of MOSENERGO's General Director approved by the Board of Directors as amended by Minutes No. 5 of August 14, 2006.

The Regulation on Stimulating Remuneration of MOSENERGO's General Director provides for a compensation plan comprising:

1. An official salary determined subject to the Company's earnings for the preceding year;

2. Bonus payments:

- on a quart-end basis - based on the key performance indicator representing the Company's financial performance in general, that includes the Acid-test Ratio. The quarterly bonus is paid subject to compliance with the Reliability Criterion comprising:
  - no record of disobedience of OAO "UES SO-CDU" dispatcher instructions in the accounting period;
  - no record of fatal industrial accidents in the quarter or a grave group accident, if there is a casualty, in the accounting period;
  - availability (obtainment) of the certificate of preparedness by the target date. This condition is regarded in the 4th and 1st quarters;
  - prevention of any growth of the number of breakdowns (incidents) in process against the respective period of the last year;
  - no breakdowns;
- on a year-end basis - based on the indicators reflecting the technical/economic and financial performance of the Company in general:
  - return on equity (ROE);
  - limit of operating costs;
  - annual reliability criterion.

The annual bonus is paid provided that the year-end shows a net profit.

With a view to motivating the Company's General Director to attain a high value of the Return of Equity KPI, a provision may be made for the General Director to receive a special bonus based on the balance of the Company's work at year-end as a share of net profit.

The target values of the key performance indicators are approved by MOSENERGO's Board of Directors.

Remunerations to the members of the Executive Board who are simultaneously the members of the Board of Directors of the Company are paid only as to the members of the Board of Directors.

The amount of remunerations due to the members of the Executive Board was determined by a resolution passed by MOSENERGO's Board of Directors in proportion to their stated salaries (Minutes No. 15 of January 30, 2006), and for 2006 it totaled RUR 3,367,303.

#### **Information about the Amount of Remunerations, Benefits and/or Compensations for Expenses Paid to the Members of the Issuer Governing Bodies**

The amount of remunerations, benefits and compensations for expenses paid to all members of the governing bodies in 2006 totaled:

payroll fund (RUR)	42,465,643
bonuses (RUR)	55,647,573
other material allowances (RUR)	4,663,312
<b>Total (RUR)</b>	<b>102,776,528</b>
<b>Including:</b>	
<b>Executive Board:</b>	
payroll fund (RUR)	33,169,637
bonuses* (RUR)	29,804,790
other material allowances (RUR)	2,878,312
<b>Total (RUR)</b>	<b>65,852,739</b>
<b>Board of Directors:</b>	
payroll fund (RUR)	9,296,006
bonuses** (RUR)	25,842,783
other material allowances (RUR)	1,785,000
<b>Total (RUR)</b>	<b>36,923,789</b>

\* Cum remuneration for the work as a member of MOSENERGO's Executive Board.

\*\* Cum remuneration for the work as a member of MOSENERGO's Board of Directors.



## 6.5. Audit Commission

The Audit Commission of MOSENERGO is a standing organ of internal audit of the Company independent of any officers of the Company's management bodies and executives. In its activities, the Audit Commission abides by the powers stipulated by the Federal Law "On Joint Stock Companies", the Company's Charter<sup>1</sup> and the Articles of the Audit Commission of MOSENERGO and other internal documents of the Company<sup>2</sup>.

In order to exercise control over the financial and economic activities and to ensure supervision over the compliance of the conducted business transactions with the Russian Federation law and the Company's Charter, as well as to perform an independent evaluation of financial standing of the Company, the Audit Commission had carried out documentary verifications (audits) of the financial and economic activities of MOSENERGO in the nine months of 2006 and throughout the year 2006.

Based on the audits and on the Company's auditor's report, the Audit Commission drew up its Opinion<sup>3</sup> which confirms the authenticity of data contained in the Company's statements and other financial documents for the year 2006.

The size of and procedure for payment of remunerations and compensations to the members of the Audit Commission are established in accordance with the Regulation on Payment of Remuneration and Compensations to the Members of MOSENERGO's Audit Commission<sup>2</sup> approved by the general meeting of shareholders on May 30, 2002.

Members of the Audit Commission are compensated for the expenses incidental to their participation in the meetings of the Audit Commission and auditing at the rates of reimbursement of business travel expenses as in effect at the time of holding the meeting or auditing. For the participation in audits of the financial and economic activities, members of the Audit Commission receive a lump-sum remuneration calculated based on the indexed minimum monthly base wage of a first class worker.

The total amount of remunerations, benefits and compensations paid by the Company to the members of MOSENERGO's Audit Commission for the year 2006 was RUR 542,800, including:

salary (RUR)	0
bonuses (RUR)	542,800
other material allowances (RUR)	0

 <sup>1</sup> 1.5.  
 <sup>2</sup> 1.7.  
 <sup>3</sup> p. 100

## MEMBERS OF THE AUDIT COMMISSION

### **Sergey Borisovich Sidorov**

**Chairman of the Audit Commission of MOSENERGO; Head of the Internal Audit Department, RAO UESR Corporate Center**

Previous offices (over the last 5 years): Head of the Internal Audit Department, RAO UESR Corporate Center; Head of the Financial Audit Department, RAO UES of Russia

| year of birth - 1952  
| citizenship - Russia  
| education - Higher  
Holds 0.000000035% of MOSENERGO shares

### **Sergey Vyacheslavovich Vasiliiev**

**Head of the Legal Department, RAO UES of Russia**

Previous offices (over the last 5 years): Head of the Legal Department, RAO UES of Russia; Acting Head of the Legal Department, RAO UES of Russia; First Deputy Head of the Legal Department, RAO UES of Russia; Deputy General Director - Head of the Department, ZAO "Yurenergo- UES"

| year of birth - 1975  
| citizenship - Russia  
| education - Higher  
Holds no MOSENERGO shares

### **Olga Andreyevna Sannikova**

**Operating Director for Investment Activities, JSB Gazprombank (CJSC)**

Previous offices (over the last 5 years): Operating Director for Investment Activities, JSB Gazprombank (CJSC); Chief Specialist, Tax Assessment Analysis and Control Section, Internal Control Department, JSB Gazprombank (CJSC); Expert, Audit Section, ZAO Arthur Andersen

| year of birth - 1979  
| citizenship - Russia  
| education - Higher  
Holds no MOSENERGO shares

### **Dmitry Yurievich Tushunov**

**Chief Economist, ZAO Leader (the Pension Fund Assets Management Company)**

Previous offices (over the last 5 years): Chief Economist, ZAO Leader (the Pension Fund Assets Management Company); Head of the Professional Securities Market Participants Service Section, Delovaya Perspektiva Auditing Firm Limited; Project Manager, ZAO Rosbuilding Investment Company; Researcher, "Higher School of Economics" State University

| year of birth - 1964  
| citizenship - Russia  
| education - Higher, Candidate of Economics  
Holds no MOSENERGO shares

### **Igor Ivanovich Uzgorov**

**Head of the SACs Financial and Economic Operations Control Department, Business Unit No. 1, RAO UES of Russia**

Previous offices (over the last 5 years): Head of the SACs Financial and Economic Operations Control Department, Business Unit No. 1, RAO UES of Russia; Head of the Department for Organization of Activity of Audit Commissions, Business Unit No. 1, RAO UES of Russia; Executive Director, OAO Russian Communal Systems; Adviser to the Professional Directors Institute Foundation; General Director's Adviser on the Work of the Boards of Directors, General Director's Adviser on the Work of the Audit Commissions to Sibirenergo, a Representative Office of RAO UES of Russia

| year of birth - 1964  
| citizenship - Russia  
| education - Higher  
Holds no MOSENERGO shares

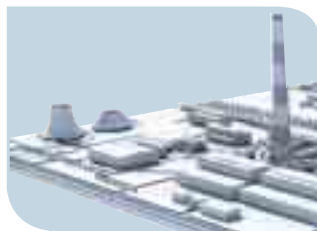


**TEP-27** commissioned on December 25, 1992. Installed electrical capacity – **160 MW**, heat capacity – **1,276 Gcal/h.**

- ① New main building of unit № 3
- ② Excavation for the main building of unit № 4
- ③ Construction of cooling tower №2



TEP-27 is one of the most environmentally safe in Russia and Europe and technologically advanced stations of the Moscow area. It was built with the use of the latest achievements of the domestic and international power-plant engineering.







# TEP

# 27

Construction of combined-cycle **plant No. 3** with a capacity of **450 MW** began in December 2005. By end-2006, the main building had been completed followed by recovery boilers setting and launching of construction of **unit No 4**. **Unit No. 3** will be commissioned late in 2007, **unit No. 4** – in 2009.

# SHARES AND STOCK MARKET

# 7

In 2006, **MOSENERGO** capitalization increased by **27,8%** reaching RUR **148,76** billion by the end of the year

## Structure of MOSENERGO's Share Capital

	Interest in Charter Capital, %	
	as of 31 Dec 2005	as of 31 Dec 2006
OA0 RAO UES of Russia	50.90	50.90
OA0 Moscow Integrated Energy Company	2.95	2.95
Legal entities and nominee holders	41.11	41.32
Natural persons	5.04	4.83

## 7.1. Issuing of Shares

MOSENERGO has conducted four issues of ordinary registered shares. The first issuance of MOSENERGO's shares was undertaken in 1993 in the process of the Company privatization and was distributed as follows: 49.0% of shares were transferred by the State to the charter capital of RAO UES of Russia, 51.0% of shares were placed through a private subscription among the labor collective members. The second and third issues of MOSENERGO's shares conducted at the expense of the funds from the revaluation of the Company's fixed assets in 1994 and 1998, respectively, have been placed among the shareholders in proportion to the share of their contributions to the Charter Capital of MOSENERGO. MOSENERGO's fourth issue was placed in 2000 through a tied private subscription to the Moscow City Government represented by the Moscow Property Department and to RAO UES of Russia.

In 2004, the annual General Meeting of MOSENERGO's shareholders adopted a resolution on the Company reorganization. As a result of retirement of the shares redeemed by the Company pursuant to Article 76 of the Federal Law "On Joint Stock Companies", No. 208-FZ, MOSENERGO's Charter Capital reduced to RUR 28,249,359,700. The Company placed 28,249,359,700 ordinary registered shares of one (1) ruble par value each. Each ordinary registered share entitles its holder to an equal measure of rights as provided by the effective legislation of the Russian Federation.

The year 2006 saw two bonded loans floated to the total amount of RUR 10 billion with a view to refinance the Company's debt instruments and to optimize its financial activities.

MOSENERGO bonds of series 02 have been traded at the MICEX Stock Exchange since May 2006 (included in the quotation list "A", level 1). The size of the bond issue is RUR 5 billion, its life is 10 years, the offer period 6 years and the yield 7.65% per annum. On August 31, 2006, the bondholders received the first coupon yield in the amount of RUR 190,750 thousand.

The issue of bonds of series 01 was reopened on September 19, 2006. The bonds are to be issued to the amount of RUR 5 billion to mature within 5 years with an offer period of 3 years and a yield of 7.54% per annum. The MOSENERGO Placement Report was registered by the RF FSFM on October 31, 2006.

Through 2006, the Company prepared for additional issue of MOSENERGO shares for the purposes of budgeting the Company's investment program.

In virtue of a resolution of MOSENERGO's Board of Directors, J.P. Morgan, an international investment bank, appeared as a financial consultant on the lead managing the additional issue of shares.

In keeping with the additional issue timetable, an Extraordinary Meeting of MOSENERGO shareholders was held on December 20, 2006, by absentee voting, which resolved on the size of the authorized shares and on an increase of the Company's charter capital<sup>1</sup>.

MOSENERGO shareholders approved the limit size of 11,500,000,000 authorized ordinary shares of the Company, amendments to the Company's Charter relating to the change in the number of the authorized shares, gave their assent to the distribution of the additional shares for the benefit of OAO Gazprom and/or other Gazprom affiliated persons.

Pursuant to Article 41 of the Federal Law "On Joint Stock Companies", a right of pre-emption is conferred on MOSENERGO shareholders.

The offering price was determined as a weighted average price quoted on NP RTS Stock Exchange and MICEX Stock Exchange over six months preceding the date of the shareholders' meeting of MOSENERGO and worked out at 5 rubles 28 kopecks. The offering price in exercising the pre-emption right was also 5 rubles 28 kopecks.

The FSFM of Russia conducted the state registration of the additional issue of shares and registration of the issue prospectus. The additional issue was registered under state registration number 1-01-00085-A-004D on January 23, 2006. The texts of the registered Resolution on the Additional Issue and Issue Prospectus can be found on the Company's website<sup>2</sup>.

<sup>1</sup> p. 161  
<sup>2</sup> 3.3.

## Major Holders of Shares

	Share in the Charter Capital, %	
	as of 31 Dec 2005	as of 31 Dec 2006
RAO UES of Russia	50.90	50.90
ZAO Depository Clearing Company (nominee holder)	29.72	30.47
NP National Depository Center (nominee holder)	9.30	9.55
ZAO ING Bank (Eurasia)/ING Depository (nominee holder, ADR program depository)	1.68	1.19
OAO Moscow Integrated Energy Company	2.95	2.95

## Information about the Company Shareholders as of the date of drawing up the list of persons eligible to participate in the extraordinary general meeting of shareholders, November 03, 2006

	Number of shareholders	Share in the charter capital, %
<b>Legal entities, incl.</b>	513	94.72
RAO UES of Russia	1	50.9
ZAO Leader (the Pension Fund Assets Management Company), trust over NPF Gazfond	1	19.86
WELLSTONE TRADING LIMITED	1	5.32
CALLENDER TRADING LIMITED	1	4.72
OAO Integrated Energy Company	1	4.60
OAO Moscow Integrated Energy Company	1	2.95
BARVILA ENTERPRISES LIMITED	1	3.95
THE BANK OF NEW YORK INTERNATIONAL NOMINEES	1	1.21
<b>Natural persons</b>	21,085	5.27
<b>Undisclosed nominal holders</b>	17	0.01
<b>TOTAL</b>	21,615	100

## 7.2. Trading in MOSENERGO Shares at the Stock Market

MOSENERGO shares are dealt in by major trading systems of the Russian stock market, ZAO MICEX Stock Exchange and NP RTS Stock Exchange (RTS).

In 1995, MOSENERGO implemented an ADR (American depositary receipts) program for the Company's shares according to Rule 144A of Regulation S. Level I ADRs are now outstanding. As of December 31, 2006, the percentage of MOSENERGO's shares deposited against ADRs is 1.2% of the Charter Capital of the Company.

The Bank of New York is the program depository. One depository receipt corresponds to 100 shares of MOSENERGO. Depository receipts for MOSENERGO's shares are dealt in on over-the-counter markets in the U.S. and Europe.

### MOSENERGO's Share Codes in Russian Major Trading Systems

NP RTS Stock Exchange	MSNG
ZAO MICEX Stock Exchange	MSNG

### MOSENERGO's ADR Tickers

U.S. over-the-counter market	AOMOY
European (London) over-the-counter market	AOMD

### Trading Volume of MOSENERGO's Shares in 2006 in Major Trading Systems

NP RTS Stock Exchange, US\$ thou	6,467.80
ZAO MICEX Stock Exchange, RUR mln	37,375.64
European (London) over-the-counter market*, US\$ thou	15,106.00

\* trading volume of depository receipts issued for the Company's shares

### Market Capitalization As of the Close of the Fiscal Year

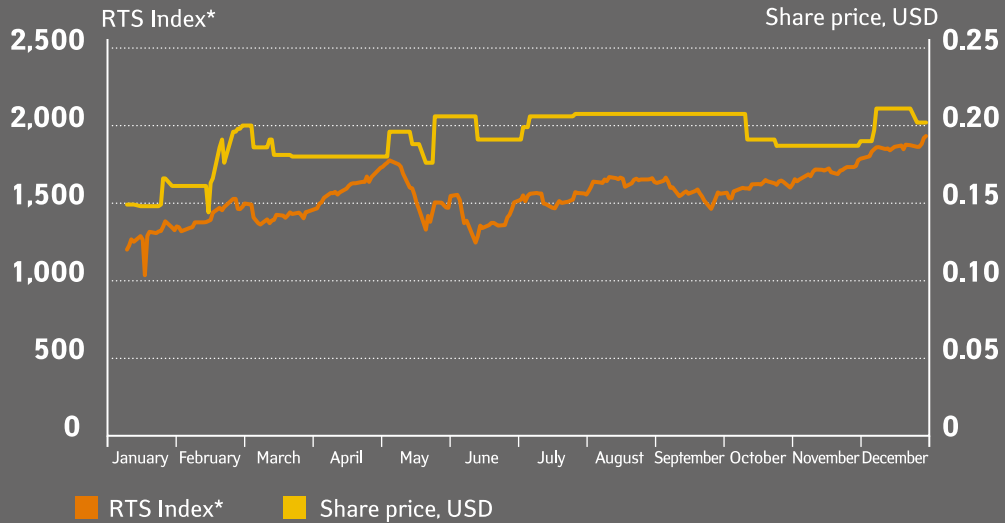
Date	Price per share, RUR	Number of shares	Capitalization, RUR
31.12.2004	4.108	28,267,726,000	116,123,818,408
30.12.2005	4.122	28,249,359,700	116,443,860,683
29.12.2006	5.266	28,249,359,700	148,761,128,180

MOSENERGO regularly takes measures aimed to enhance capitalization of the Company in pursuance of the requirements of Russian and U.S. laws imposed on the companies whose shares are traded at stock markets, including with respect to compliance with the corporate governance standards, public awareness and transparency of the Company's business. In 2006, MOSENERGO capitalization increased by 27.8% reaching RUR 148.76 billion by the end of the year<sup>1</sup>.

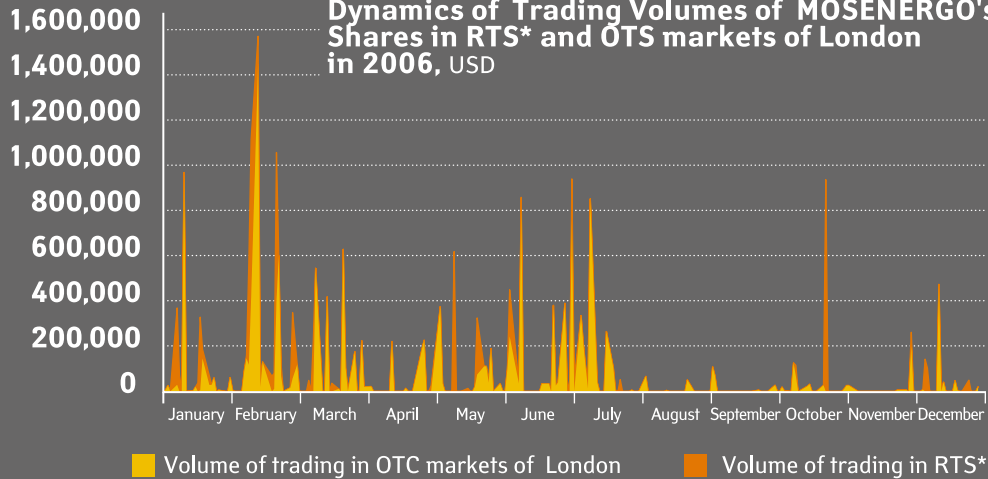
In 2006, the Company shares were included in the following quotation lists of the trade institutors: ZAO MICEX Stock Exchange – quotation list "A", level 1, NP RTS Stock Exchange – list "A", level 2, OAO RTS traded the shares as non-listed stock.

<sup>1</sup> Market capitalization is calculated according to ZAO MICEX Stock Exchange data on the market price per share as disclosed on the date of completion of the respective reporting period and the number of MOSENERGO shares issued.

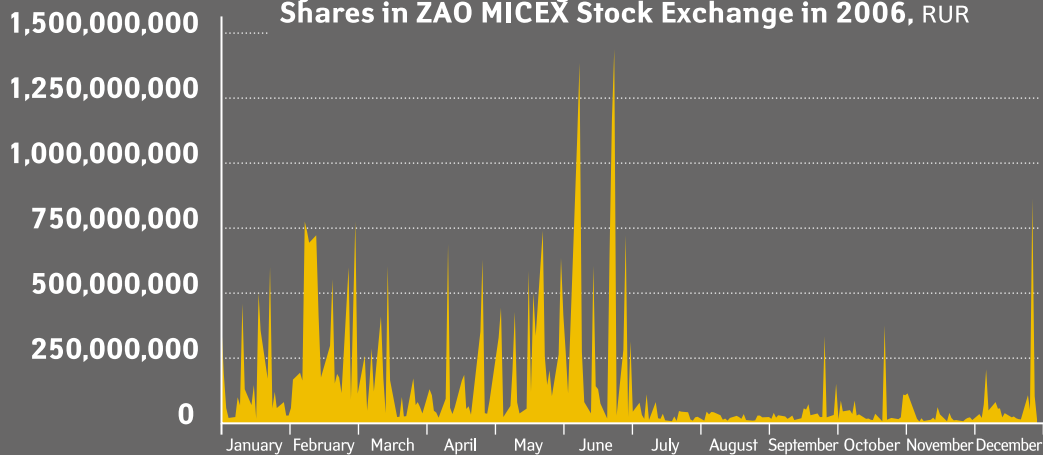
**Movement of MOSENERGO's Share Price and RTS Index\* in 2006**



**Dynamics of Trading Volumes of MOSENERGO's Shares in RTS\* and OTC markets of London in 2006, USD**



**Dynamics of Trading Volumes of MOSENERGO's Shares in ZAO MICEX Stock Exchange in 2006, RUR**



\* NP RTS Stock Exchange

Trading in MOSENERGO shares during the year was characterized by a small in comparison with the preceding years volume of trade, which can be accounted for a slight amount of MOSENERGO shares in public ownership. Fluctuations of the equity prices during 2006 are caused, in the eyes of the stock market analysts, basically by the subscription of the strategic investor.

In 2006, the price of MOSENERGO shares reached its lowest of RUR 3.969 on February 15, and peaked at RUR 6.298 on May 30.

### 7.3. Dividend History

While accruing and paying its dividend, MOSENERGO meets the requirements of the Federal Law "On Joint Stock Companies" and the Company's Charter.

In 2006, the dividend on MOSENERGO's shares was accruing and paid based on the 2005 work results in strict compliance with the resolution of the annual general meeting of shareholders dated May 26, 2006<sup>1</sup>. The amount of accrued dividends totaled RUR 453,967 thousand. With an allowance for the retained corporation tax, the amount of dividends due and payable worked out at RUR 412,596 thousand.

The dividend was paid in full within 60 days after the Shareholders' Meeting so resolved.

Dividends due and owing to RAO UESR were remitted in accordance with the schedule signed by both parties.

Period	Outpayments per share, RUR.	Total amount of dividend accrued, RUR thou.	Dividend yield*, %
paid in 2004 in respect of 2003	0.02169	613,127	0.97
paid in 2005 in respect of 2004	0.0221	624,311	0.98
paid in 2006 in respect of 2005	0.01607	453,967	0.32
paid in 2007 in respect of 2006**	0.02116***	600,000	-

\* calculated as a ratio of the amount of dividend paid to the price of shares on the date of preparing the list of persons eligible to receive the dividend;  
 \*\* submitted to the general meeting of shareholders for approval;  
 \*\*\* calculated inclusive of the number of the additional issue shares acquired by shareholders in the period of exercise of the preemption right to buy out the shares.



# OVERVIEW OF FINANCIAL RESULTS

# 8



The proceeds from sales of commercial output in 2006 yielded RUR **70,3** billion, and the net profit scored RUR **1,5** billion

### 8.1. Sales

In 2006, the proceeds from sales of commercial output (net of VAT) yielded RUR 70.3 billion, including RUR 62.4 billion as revenues on electricity and heat sales.

Since January 1, 2006, MOSENERGO has been operating in the wholesale electricity market (called NOREM since September 1) and has been independently making electricity purchase and sale transactions in its sectors.

In 2006, MOSENERGO delivered electricity for RUR 30.8 billion to the WEM (NOREM).

In the WEM regulated sector (DAM since September 1), revenues from sales of electricity and capacity (inclusive of the discrepancy sector) was RUR 26.7 billion, including RUR 17.2 billion in revenues from electricity sales and RUR 10.6 billion in payment for installed capacity. Due to the WEM cost imbalance, the Company has short-received RUR 1.1 billion in this sector.

The WEM cost imbalance is due to the mismatch of the cost of the actually sold and purchased electricity.

In 2006, the WEM cost imbalance was allocated by NP ATS among the market participants supplying electricity (capacity) and was RUR 1.1 billion for MOSENERGO. Upon the 2006 results, this amount was excluded from revenues in accounts.

After NOREM was introduced in September 1, 2006, no cost imbalance has been charged.

In the free trade sector (DAM since September 1), the annual revenues from electricity sales were RUR 4.1 billion.

Heat sales to customers are handled by Teplosbyt, a MOSENERGO's branch in Moscow and in the cities of the Moscow Region: Lyubertsy, Kotelniki, Dzerzhinsk, Khimki, Mytishi, Balashikha, and Orekhovo-Zuevo.

To secure heat sales and arrange for settlements for the consumed heat, Teplosbyt hired an independent sales company OOO Orekhovo-Energosbyt and ZAO Energy Sales Maintenance Center, whose personnel has become part of Teplosbyt since September 1, under a service agreement in 2006.

LAPS-3 and TEP-17 sell heat in the Cities of Elektrogorsk and Stupino.

The overall level of payments for power in 2006 stood at 103.3% with the consumers settling accounts with respect to 103.5% of electricity and 103.2% of heat.

As of December 31, 2006, the Company's accounts receivable from buyers and customers stood at RUR 2.3 billion, down RUR 1.6 billion as compared with the beginning of the year.

Accounts receivable from electricity and heat customers, inclusive of electricity supplies to the wholesale market, have reduced by RUR 2.0 billion (from RUR 3.4 to 1.4 billion) since the beginning of the year, including:

- by RUR 0.8 billion for electricity;
- by RUR 1.2 billion for heat.

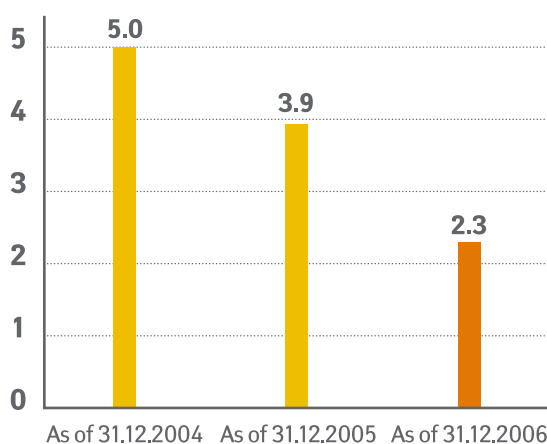
The accounts receivable in the amount of RUR 1.1 billion and recognized to be unrealistic for collection, were included in the doubtful debt provision.

The Company performs on-going work to strengthen the payment discipline of customers and recover overdue accounts receivable for the sold power.

In 2006, MOSENERGO brought 392 legal actions against power customers through arbitration tribunals to recover overdue accounts receivable for the amount of RUR 1.6 billion.

Arbitration tribunals allowed 88 legal actions for the amount of RUR 1.3 billion.

**History of Short-term Receivables Due from Buyers and Customers (VAT included),**  
RUR bln



## 8.2. Cost Management

The production cost of MOSENERGO's commercial output in 2006 totaled RUR 65.2 billion, including RUR 59.6 billion of energy generation costs.

The generation cost of 1 kWh of electricity amounted to 46.83 kopecks/kWh, and the generation cost of 1 Gcal of heat to 454.82 RUR/Gcal.

The cost of fuel contributed RUR 33.2 billion to the generation costs making up 55.8% thereof.

The price of the primary fuel, natural gas, in 2006 was RUR 1,397.8 per thousand cu m, up 12.7% over 2005.

A ton of fuel oil cost RUR 2,960.2, a 23.2% increase against the level of 2005.

Kuznetsk coal was procured at RUR 1,255.2 per ton, inclusive of the railroad tariff, rising 13.5% against 2005.

The average price of equivalent fuel was RUR 1,248.4 per ton, a 13.3% hike year on year.

The remedial maintenance expenses in 2006 accounted for RUR 4.7 billion, or 8.0% of the energy generation costs.

The payroll costs, including allocations, amounted to RUR 4.6 billion, or 7.7% of the total energy generation costs.

MOSENERGO continuously works on optimization of its expenses in order to increase the Company profitability. This work is carried out in accordance with the cost management program along the following base lines:

- increase of sale proceeds;
- cost saving;
- optimization of the operating and non-core activities.

The actual fulfillment of the program in 2006 worked out at RUR 1,652.9 million, which is 2.3% higher than the target figure.

To optimize its expenses by way of awarding contracts for the procurement of goods, works and services on the most favorable for MOSENERGO terms, the Company followed the regulated procurement procedures<sup>1</sup>.

## 8.3. Profit

In 2006, MOSENERGO made a RUR 5.0 billion profit on sales of marketable products in the amount of, including a RUR 2.8 billion profit on the electricity and heat sales.

The profit on electricity sales totaled RUR 3.3 billion with the loss on heat sales in 2006 being RUR 0.5 billion.

The profit on sales of other products, including transactions on the wholesale electricity market, came up to RUR 2.2 billion.

The pretax profit (adjusted for operating and non-sale revenues and expenditures) worked out at RUR 3.0 billion, and the profit tax at RUR 1.47 billion.

The Company's net profit after the profit tax and other mandatory payments scored RUR 1.52 billion.

The profit earned is planned to be allotted for capital construction, payment of dividends based on the annual returns of 2006 and for the Reserve Fund.

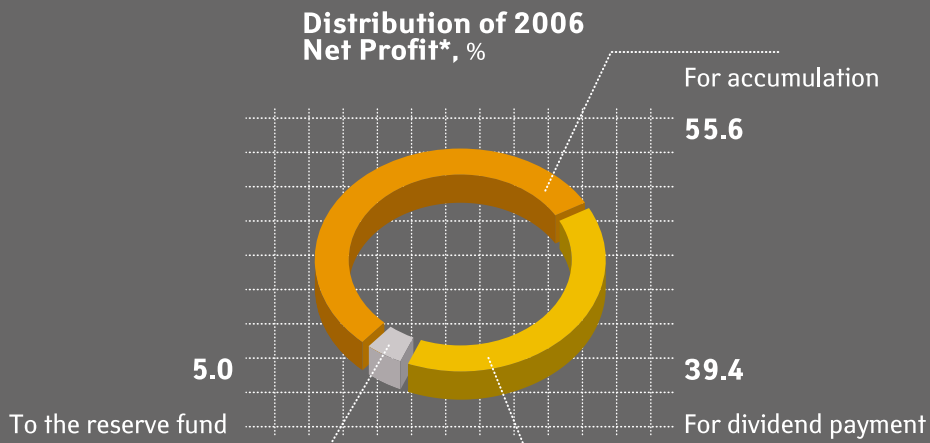
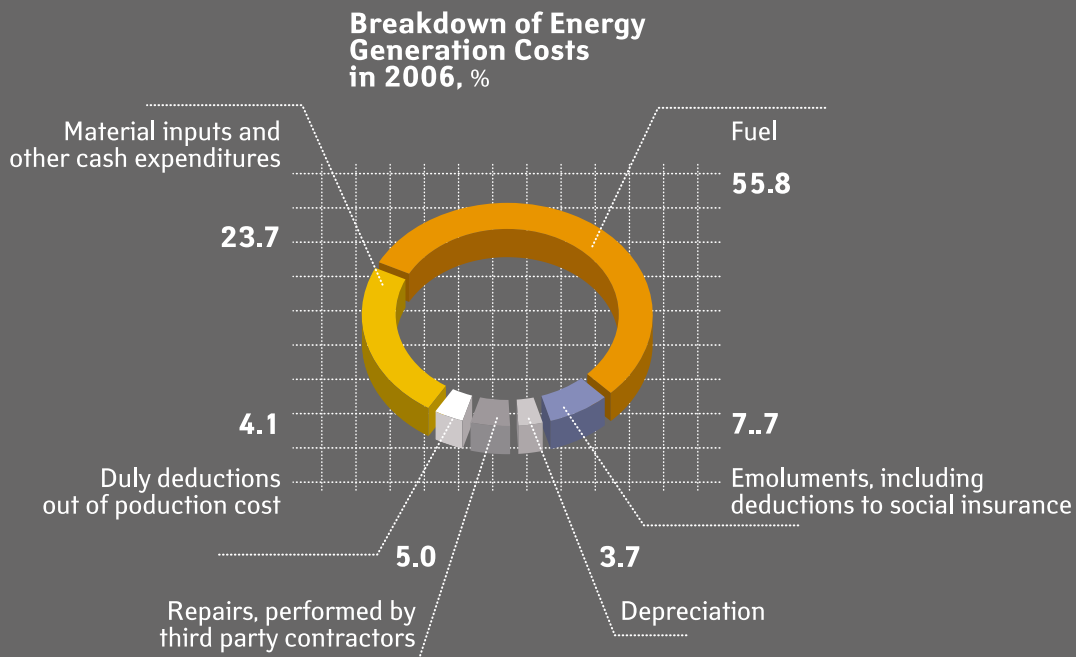
In accordance with Article 8.1 of the Company's Charter, the amount of mandatory annual allocations to the Reserve Fund is five percent of the net profit of the Company until the established amount of the Reserve Fund is reached (five percent of the Company's charter capital).

### Distribution of Profits, RUR thousand

	2004	2005	2006*
Retained earnings	2,207,693	2,081,926	1,523,725
To the Reserve Fund	110,385	104,096	76,186
For accumulation	1,472,997	1,523,863	847,539**
For dividend payment	624,311	453,967	600,000

\* submitted to the General Meeting of shareholders for approval;

\*\* including RUR 159,027 thousand for 2006 investments, and RUR 688,512 thousand for 2007 investments.



\* submitted to the general meeting of shareholders for approval.

## 8.4. Attainment of Key Performance Indicators

The key performance indicators (KPI) that are used to assess the effectiveness and efficiency of the Company management actions, processes and functions are approved by MOSENERGO's Board of Directors.

### Attainment of Key Performance Indicators in 2006

Indicator	Target	Actual	Dev.	Calculation formula
<b>Annual KPI</b>				
Return of equity (ROE), %	3.83	3.84	0.01	Net profit / Section 3 TOTAL (Capital and reserves)
Limit of operating costs, RUR thou	60,688,686	59,661,333	-1,027,353	Production expenses unadjusted for fixed costs
<b>Quarterly KPI (4th quarter)</b>				
Acid-test ratio	1.0	1.96	0.96	Accounts receivables due within 12 months + Short-term financial investments + Monetary assets / Short-term borrowings + Short-term accounts payable + Arrears of revenues payable to members (founders) + Other short-term liabilities

At 2006 year-end, the return of equity (ROE) which characterizes the net return on each ruble of the Company's equity capital was attained.

The limit of operating costs shows the Company's production expenses to the exclusion of fixed costs that are invariant with the amount of products supplied.

The acid-test ratio characterizes the Company's ability to honor its short-term liabilities using its own resources and accounts receivable for the product supplied. At 2006 year-end, the acid-test ratio added 0.96 points to the target.

### 8.5. Tariff Policy

The Company pursued its tariff policy in interaction with regulatory organizations in setting electricity and heat tariffs allowing the production and investment programs to be fulfilled and profit to be received for achievement of the set key indicators while maintaining the high level of reliability of the power equipment.

#### Electricity

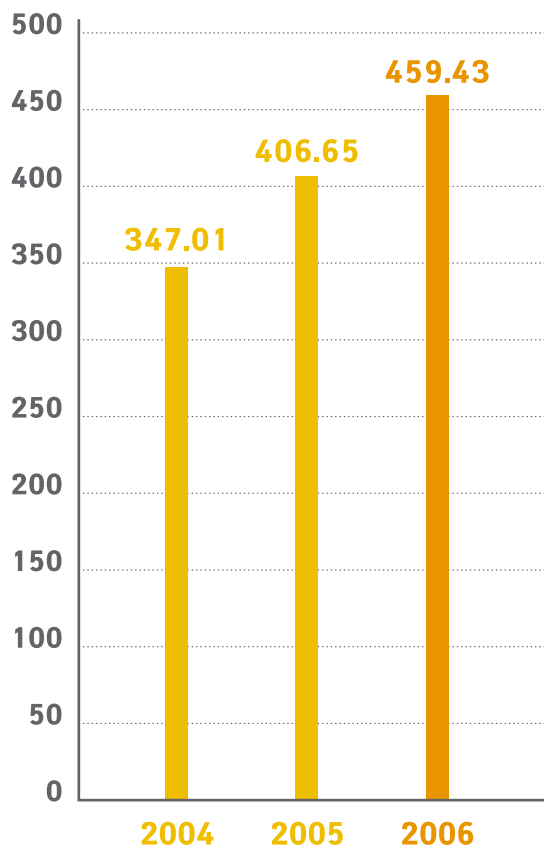
In 2006, electricity supplied to the regulated sector of the wholesale market was charged at the tariffs set by Order No. 572-e/5 dated December 3, 2005 of the FTS of Russia individually for each power plant of the Company<sup>1</sup>.

Electricity supplied to the free trade sector of the Wholesale Market was charged at the tariffs formed on the basis of bidders' competitive bids.

#### Tariffs Set in the Regulated Sector of the Wholesale Market

	2005	2006	% of change
Capacity rate, RUR '000/MW	77,397	93,682.8	21.0
Power rate, RUR/MWh	305.2	335.9	10.0
Average tariff, RUR/MWh	482.1	548.2	14.2

Average heat sale tariff, RUR/Gcal



Based upon the year results, the actual average tariff in the wholesale market was RUR 525.2/MWh. The reduction in the tariff was driven by the change, as of September 1, of the scheme of sales in the Wholesale Market after introduction of NOREM as well as exclusion of the WEM cost imbalance of RUR 1.1 billion from revenues in accounts.

#### Heat

Since January 1, 2006, final heat customers were charged at the tariffs<sup>1</sup> approved:

- in Moscow, by ordinance No. 86 dated December 12, 2005 of the REC of Moscow;
- in the Moscow Region, by minutes No. 37 dated December 27, 2005 of the meeting of the board of ECMR.

MOSENERGO, in its heat sales to OAO Moscow Heating Grid Company for compensation of losses, used the tariffs approved by the REC of Moscow by ordinance No. 114 dated December 30, 2005 for Moscow and by minutes No. 37 dated December 27, 2005 of the meeting of the board of ECMR for the Moscow Region.

<sup>1</sup> 1.10.

**Trends in Heat Tariffs, RUR/Gcal**

	<b>MOSENERGO</b>	<b>Moscow</b>	<b>Moscow Region</b>
Average annual schedule tariff as from January 1, 2006	459.49	460.49	444.53
Average sale tariff for 2006	459.43	459.78	451.26
Schedule tariff for sale of heat for compensation of losses as from January 1, 2006	277.65	274.9	346.5
Average annual schedule tariff as from January 1, 2005	409.89	409.47	417.46
Actual average sale tariff in 2005	406.65	407.09	397.41
Accretion to the average annual schedule tariff, %	12.1	12.5	6.48
Accretion to the actual average sale tariff, %	13.0	12.9	13.6

A certain reduction in the actual average sale tariff in Moscow against the schedule tariff is due to increase in sales to customers that are directly connected to steam manifolds of power plants and have steam grids on their own balance sheet because the trans-

portation service component of the tariff does not apply to them.

The actual average tariff for sales of heat for compensation of losses in 2006 was RUR 276.82/Gcal.

**Trends in Actual Tariffs of Heat (Hot Water) by Customer Group, RUR/Gcal**

<b>Customer groups</b>	<b>Moscow</b>			<b>Moscow Region</b>		
	<b>2005</b>	<b>2006</b>	<b>Deviation, %</b>	<b>2005</b>	<b>2006</b>	<b>Deviation, %</b>
Budget-sponsored customers	414.6	464.7	12.1	398.9	422.6	5.9
Population (without VAT)	246.6	328.8	33.3	333.0	358.5	7.7
Other customers	441.2	488.1	10.6	397.4	441.1	11.0



## 8.6. Analysis of Financial Results

### ANALYTICAL BALANCE SHEET, RUR thou

ASSETS				Balance sheet structure, %		
	As of 31.12. 2005	As of 31.12. 2006	Devi- ation	As of 31.12. 2005	As of 31.12. 2006	Devi- ation
<b>I. NONCURRENT ASSETS</b>						
Intangible assets	42	94	52	0.00	0.00	0.00
Fixed assets	38,330,619	40,275,999	1,945,380	70.30	58.19	-12.11
Construction in progress	2,951,279	8,071,827	5,120,548	5.41	11.66	6.25
Long-term financial investments	31,387	25,693	-5,694	0.06	0.04	-0.02
Deferred tax assets	339	261	-78	0.00	0.00	0.00
<b>SECTION I TOTAL</b>	<b>41,313,666</b>	<b>48,373,874</b>	<b>7,060,208</b>	<b>75.77</b>	<b>69.88</b>	<b>-5.88</b>
<b>II. CURRENT ASSETS</b>						
Inventories	3,320,635	4,675,754	1,355,119	6.09	6.75	0.67
Value-added tax on valuables acquired	1,006,954	584,851	-422,103	1.85	0.84	-1.00
Receivables (expected to be paid in more than 12 months from the reporting date)	72,908	71,001	-1,907	0.13	0.10	-0.03
Receivables (expected to be paid within 12 months after the reporting date)	6,257,111	9,632,412	3,375,301	11.48	13.92	2.44
Short-term financial investments	17,392	910,427	893,035	0.03	1.32	1.28
Monetary assets	2,538,256	4,971,776	2,433,520	4.66	7.18	2.53
<b>SECTION II TOTAL</b>	<b>13,213,256</b>	<b>20,846,221</b>	<b>7,632,965</b>	<b>24.23</b>	<b>30.12</b>	<b>5.88</b>
<b>BALANCE</b>	<b>54,526,922</b>	<b>69,220,095</b>	<b>14,693,173</b>	<b>100.00</b>	<b>100.00</b>	
<b>LIABILITIES</b>						
<b>III. CAPITAL AND RESERVES</b>						
Charter capital	28,249,360	28,249,360	0	51.81	40.81	-11.00
Additional capital	8,910,561	8,896,312	-14,249	16.34	12.85	-3.49
Reserve capital	508,339	612,435	104,096	0.93	0.88	-0.05
Retained earnings (uncovered loss)	950,187	1,924,917	974,730	1.74	2.78	1.04
<b>SECTION III TOTAL</b>	<b>38,618,447</b>	<b>39,683,024</b>	<b>1,064,577</b>	<b>70.82</b>	<b>57.33</b>	<b>-13.50</b>
<b>IV. LONG-TERM LIABILITIES</b>						
Loans and credit facilities	957,188	20,283,054	19,325,866	1.76	29.30	27.54
Deferred tax liabilities	331,976	578,355	246,379	0.61	0.84	0.23
Other long-term liabilities	0	190,247	190,247	0.00	0.27	0.27
<b>SECTION IV TOTAL</b>	<b>1,289,164</b>	<b>21,051,656</b>	<b>19,762,492</b>	<b>2.36</b>	<b>30.41</b>	<b>28.05</b>
<b>V. SHORT-TERM LIABILITIES</b>						
Loans and credit facilities	8,856,645	869,941	-7,986,704	16.24	1.26	-14.99
Accounts payable	5,115,780	7,035,210	1,919,430	9.38	10.16	0.78
Arrears of revenues payable to members (founders)	296	607	311	0.00	0.00	0.00
Deferred incomes	646,590	579,657	-66,933	1.19	0.84	-0.35
<b>SECTION V TOTAL</b>	<b>14,619,311</b>	<b>8,485,415</b>	<b>-6,133,896</b>	<b>26.81</b>	<b>12.26</b>	<b>-14.55</b>
<b>BALANCE</b>	<b>54,526,922</b>	<b>69,220,095</b>	<b>14,693,173</b>	<b>100.00</b>	<b>100.00</b>	

MOSENERGO's total assets as of the end of 2006 were estimated in the balance sheet at RUR 69,220,095 thousand, which is RUR 14,693,173 thousand or 26.9% more than as of the beginning of the year. Such a considerable growth is due to the funds raised to enable the Company to begin a large-scale program for construction of new and refurbishment of existing generating capacities.

Non-current assets have grown by RUR 7,060,208 thousand, or 17.1% mainly due to the increase in the assets in the item "Construction in progress" and the growth in the value of fixed assets. The share of the non-current assets in the structure of the Company's total assets reduced from 75.8% as of the beginning to 69.9% as of the end of the reporting year.

The value of MOSENERGO's current assets increased by RUR 7,632,965 thousand or 57.8% in comparison with the beginning of 2006. This is due to the following reasons:

- RUR 1,355,119 thousand (40.8%) growth in the item "Inventories" mainly due to fuel oil price growth and coal inventory growth;
- RUR 3,375,301 thousand (53.9%) increase in short-term accounts receivable in which accounts receivable from buyers and customers reduced by RUR 1,633,137 thousand (41.6%), accounts receivable from other debtors reduced by RUR 980,210 thousand (52.9%), and the amount of advances made increased by RUR 5,988,648 thousand (more than 13 times). This growth is due to making advances to construction organizations in connection with implementation of the investment program;
- occurrence of additional short-term financial investments because the Company temporarily had free cash and deposited it in a term account;
- RUR 2,433,520 thousand (95.9%) increase in the current balance of cash.

The share of current assets grew from 24.2% to 30.1% of the total amount of MOSENERGO's assets.

Considerable changes were also made in the Company's liabilities and equity structure.

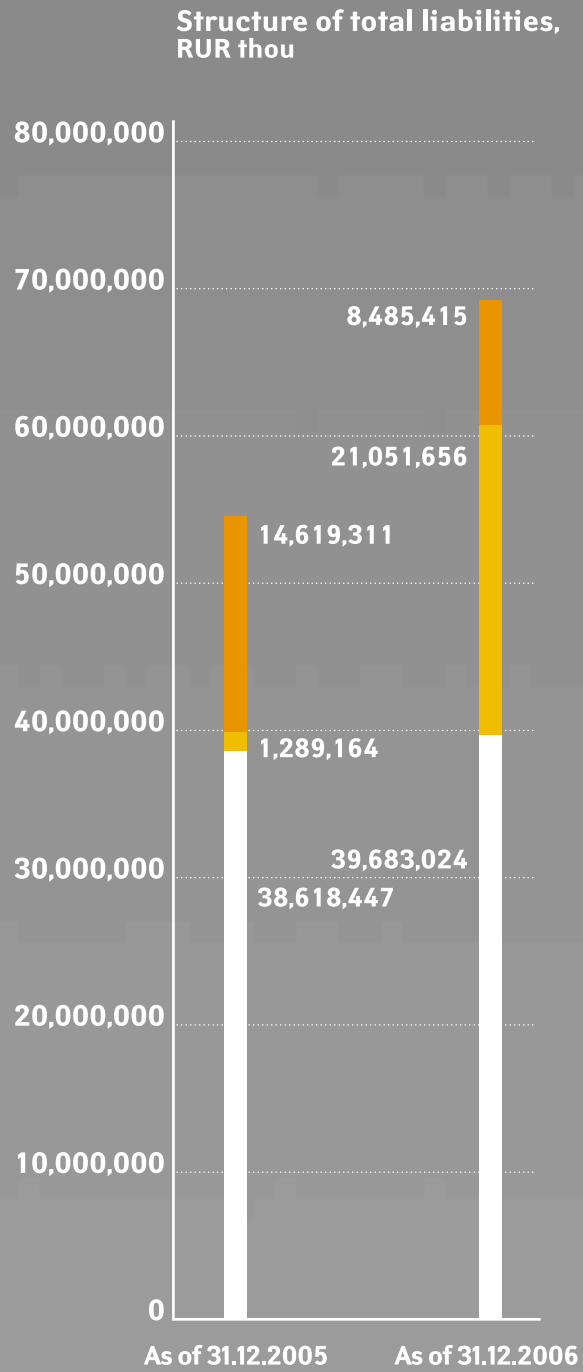
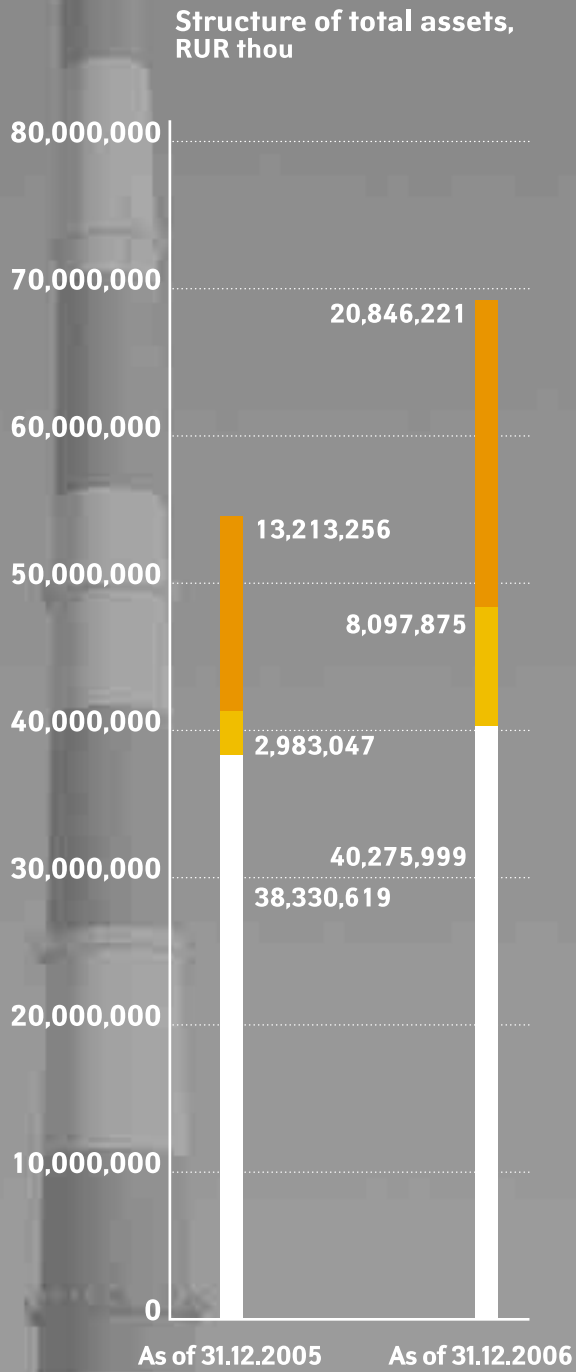
Equity increased by RUR 1,064,577 thousand (2.8%), while its share in the balance sheet total line reduced from 70.8% as of the beginning to 57.3% as of the end of 2006.

During 2006, the Company raised short-term credit resources to replenish current assets, the lack of which was caused by uneven receipt of cash as a payment for electricity and heat. In addition, to secure the Company's investment activities, credit resources were raised in 2006 in the amount of RUR 7,200,000 thousand made available by EBRD under the Agreement entered into in December 2005 as well as in the amount of RUR 2,787,044 thousand made available by OAO Vneshtorgbank as part of the credit facility with the limit of RUR 4 billion.

For the purpose of refinancing the short-term loans existing in the credit portfolio as of the beginning of 2006, two bonded loans of RUR 5 billion each and maturing in 10 and 5 years were placed. As of 31 December 2006, all short-term loans were repaid, except for the investment loans raised in 1998 and 2002 from international financial institutions and reclassified into short-term loans because they will mature soon in 2007.

Detailed information on the flow of borrowed funds and their securing is given in annex No. 1 to the explanatory note to the accounts<sup>1</sup>.

Accounts payable increased by RUR 1,919,430 thousand, or 37.5% in comparison with the beginning of 2006. With that, accounts payable to suppliers and contractors grew by RUR 2,059,578 thousand (82.1%) mainly due to a growth of the current debt to construction organizations. The percentage of accounts payable in the Company's balance sheet total line raised insignificantly and was 10.2% as of the end of the reporting year.



- Fixed assets
- Sundry noncurrent assets
- Current assets

- Shareholders' equity
- Long-Term Borrowings
- Short-Term Borrowings

The positive trends in liquidity ratios and financial stability were mainly caused by refinancing the Company's short-term loans from the funds received from placement of a long-term bonded loan in 2006 as well as from raising additional short-term loans. MOSENERGO's activities are mainly financed from the stable sources – equity capital and long-term borrowed funds.

As compared with 2005, there is also a positive trend in capital turnover, current asset turnover and capital productivity ratios. The reason behind this is that the Company received revenues from sales of products in the reporting year at the level of the last year, in which MOSENERGO operated 61 branches for the first three months.

A certain increase in the accounts receivable turnover ratio calculated in days was caused by making advances to construction organizations in connection with implementation of the Company's investment program.

A reduction in the sales profitability and product output indicators was due to the following reasons:

- decrease in the profit from sales in 2006 in comparison with 2005 in connection with the reduction of the Company's types of activities as a result of reorganization since April 1, 2005;
- decrease in the profit from sales because of the reduction in revenues from sales of electricity by the WEM tariff imbalance amount;
- non-economical operation modes of the equipment of the power plants due to abnormal weather conditions in Q1 2006 and operation on the backup fuel (fuel oil) as well as reduction in effective sales of heat in Q4 2006 due to high ambient temperatures.

#### Basic Liquidity, Stability, Business Activity and Profitability Ratios of MOSENERGO

Indicator	As of 31.12.2002	As of 31.12.2003	As of 31.12.2004	As of 31.12.2005	As of 31.12.2006
Absolute liquidity ratio	0.18	0.28	0.23	0.18	0.74
Current liquidity ratio	1.93	1.46	1.02	0.95	2.64
Financial stability ratio	0.92	0.87	0.84	0.74	0.89
Overall capital turnover ratio (turnover)	0.44	0.57	0.69	0.76	1.14
Current asset turnover ratio (turnover)	2.68	3.20	3.86	4.04	4.13
Receivables turnover ratio (days)	80.72	61.03	41.66	36.89	40.70
Capital productivity	0.55	0.73	0.91	1.02	1.79
Sales margin	8.7%	9.5%	15.2%	9.5%*	7.1%
Production margin	9.5%	10.6%	18.0%	10.5%*	7.6%
Return on aggregate capital	0.5%	1.4%	1.7%	2.2%	2.5%

\* recalculated in connection with changes in the methodology of calculation of the profit tax in 2006 charging the amount of the tax to the production costs of goods, services sold (sales margin was 11.0%, production margin was 12.4% according to the 2005 report).

### Methodology for Calculation of Analytical Ratios

Absolute liquidity ratio	Indicates the proportion of the short-term debt that the organization can promptly pay with its cash (Short-term financial investments + Monetary assets) / (Short-Term Borrowings + Short-term payables + Arrears of revenues payable to members (founders) + Other short-term liabilities)
Current liquidity ratio	Indicates the proportion of the short-term debt that can be paid with the total current assets Section II total (CURRENT ASSETS) / (Short-term borrowings + Short-term payables + Arrears of revenues payable to members (founders) + Other short-term liabilities)
Financial stability ratio	Shows which part of the assets is financed from stable sources (Section III total (CAPITAL AND RESERVES)+ Section IV total (LONG-TERM LIABILITIES) + Deferred incomes + Provision for Liabilities and Charges) / Balance-sheet total
Overall capital turnover ratio (number of cycles)	Reflects the speed of circulation of the organization's total capital (in cycles per period) Sales proceeds / Balance-sheet total (a mean value for the period under review)
Current assets turnover ratio (number of cycles)	Shows the turnover speed of the organization's total current assets (both tangible and monetary) Sales proceeds / Section II total (CURRENT ASSETS) (a mean value for the period under review)
Receivables turnover rate (days)	Indicates the efficiency with which the proceeds from sales are used, and the quality of work with debtors Mean receivables due within 12 months X 360 / Sales proceeds
Capital productivity	Measures how efficiently the organization's fixed assets are used Sales proceeds / Fixed assets (a mean value for the period under review)
Sales margin (%)	Shows the profit per unit of sales (Profit on sales / Sales proceeds) X 100%
Production margin (%)	Shows the profit per unit of costs of generation and sales (Profit on sales / Production cost of sold goods, work, services) X 100%
Return on aggregate capital (%)	Shows how efficiently the aggregate capital is used (Net profit / Balance-sheet total (a mean value for the period under review)) X 100%

In 2008, Moscow will complete construction of a new **Zvenigorodsky Prospect** which will connect the center of the metropolis with the federal **Baltiyya** highway and give a new impulse to the development of the adjacent areas.

The overall length of the Zhivopisny bridge will be 1,460 meters. The roadway span over 400 meters long will be suspended on 72 stay cables from the bearing pylon of the bridge, a rigid steel arch. A 1600-meter long dive accommodating a motor-road and a new subway line will be constructed under the Serebryany Bor natural park.

- 1 Zhivopisny bridge
- 2 Zvenigorodsky Prospect
- 3 Water area of Moscow-River





Electric loads of **Moscow**  
and **the Moscow Region**  
are predicted to have grown  
to **21,000** MW by 2010,

reaching

**28,000**

**MW BY 2020**



# FINANCIAL STATEMENTS

# 9

MOSENERGO prepares annual financial statements in accordance with the Russian Financial Reporting Standards, as well as in agreement with the International Financial Reporting Standards (IFRS).

The financial statements prepared in accordance with the Russian Financial Reporting Standards for the year ended on December 31, 2006, are presented in this section of this Annual Report.

The financial statements prepared in accordance with the International Financial Reporting Standards for the year ended on December 31, 2006, can be found on the Company's website in the "To Our Shareholders and Investors" section<sup>1</sup>.

<sup>1</sup> 3.2.3.

### 9.1. MOSENERGO Management's Opinion on Financial (Accounting) Statements

This management's opinion shall be considered together with the financial (accounting) statements of the Company drawn up in accordance with the accounting rules in force in the Russian Federation.

The Company's management bears full responsibility for preparation of financial (accounting) statements to give a true and fair view of MOSENERGO's property status, financial results and cash flow for the year ended on December 31, 2006.

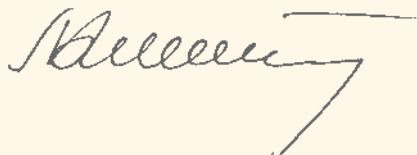
The Company has a system of auditing its financial and economic activities. Members of the Audit Commission were approved by the General Meeting of Shareholders on May 26, 2006.

The financial (accounting) statements for 2006 were examined by PricewaterhouseCoopers Audit, an independent private firm of auditors, approved as the Company auditor by the General Meeting of Shareholders held on May 26, 2006. The independent auditors carried out their audits within the framework of generally accepted auditing standards. In the course of the audit, auditors had access to financial (accounting) statements and other documents, as well as followed the prescribed procedures with a view to obtain adequate grounds for expression of their opinion about the compliance of the financial (accounting) statements with the requirements of the legislation in force and absence of material distortions therein.

Based on the results of the conducted audits, MOSENERGO's management obtained pertinent reports.

The annual financial (accounting) statements of MOSENERGO for the year ended on December 31, 2006, was approved on March 01, 2007, on behalf of the management by:

General Director



A.Ya. Kopsov

Chief Accountant



T.P. Dronova

## 9.2. Opinion of the Audit Commission of MOSENERGO, Open Joint Stock Company for Energy and Electrification

March 23, 2007

Moscow

The Audit Commission of MOSENERGO, Open Joint Stock Company for Energy and Electrification, elected by the General Meeting of shareholders on May 26, 2006, acting within the powers defined by the Federal Law "On Joint Stock Companies", Charter of MOSENERGO, Open Joint Stock Company for Energy and Electrification, and the Articles of the Audit Commission of MOSENERGO, Open Joint Stock Company for Energy and Electrification, had audited financial and economic activities of the Company in 2006.

Based on the audit findings and taking into account an opinion by PricewaterhouseCoopers Audit, a private company, on the financial (accounting) statements dated March 21, 2007, the Audit Commission concludes that data contained in the annual report of MOSENERGO can be recognized as authentic.

Chairman of the Audit Commission

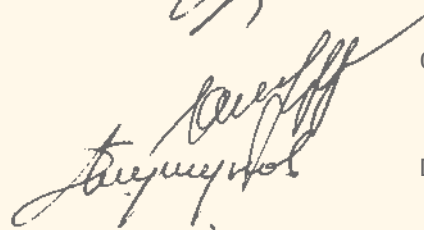


S.B. Sidorov


Members of the Commission:



S.V. Vasiliev



O.A. Sannikova



D.Yu. Tushunov



I.I. Uzgorov

**AUDITOR'S REPORT**  
**on statutory financial statements**

To the shareholders of Open Joint Stock Company of Energy and Electrification  
«Mosenergo»:

**Auditor**

Close Joint Stock Company «PricewaterhouseCoopers Audit» (ZAO «PwC Audit»).

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

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

Audit license № E000376 issued by the Ministry of Finance of the Russian Federation on  
20 May 2002. The license is valid until 20 May 2007.

**Client**

Open Joint Stock Company of Energy and Electrification «Mosenergo» (short name –  
OAO «Mosenergo»).

Russian Federation, Moscow, Raushskaya Nab., 8.

State registration certificate № 012.473 issued by Moscow city registration chamber on  
6 April 1993.

Certificate on entry to the Unified State Register of legal entities № 1027700302420  
issued by Moscow city district Inspectorate of the RF Ministry of Taxes and Levies on 11  
October 2002.

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**TRANSLATOR'S EXPLANATORY NOTE:** The above translation of the Auditor's report is provided as a  
free translation from Russian, which is the official and binding version. The English translation of  
enclosed financial statements does not contain the English translation of the Explanatory Notes,  
which are enclosed in the official Russian version of the Auditor's report.

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**AUDITOR'S REPORT**  
**on statutory financial statements of Open Joint Stock Company of Energy and Electrification «Mosenergo»**

To the shareholders of Open Joint Stock Company of Energy and Electrification «Mosenergo»:

- 1 We have audited the attached statutory financial statements of Open Joint Stock Company of Energy and Electrification «Mosenergo» (hereinafter referred to as the Company) for the period from 1 January up to 31 December 2006. Statutory financial statements of the Company consist of Balance Sheet, Statement of Profit and Losses, Statement of Changes in Equity, Cash Flow Statement, Supplement to the Balance Sheet, Explanatory Notes (hereinafter all the statements together are called «statutory financial statements»). The statutory financial statements were prepared by the management of the Company in accordance with the legislation of the Russian Federation applicable to statutory financial statements preparation. Such statutory financial statements differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.
- 2 Preparation of the statutory financial statements is the responsibility of the executive body of the Company. Our responsibility as auditors is to express our opinion on fairness in all material respects of these statutory financial statements and on whether accounting is conducted in accordance with the Russian legislation based on our audit.
- 3 We conducted our audit in accordance with The Federal Law «On auditing activity», Federal Auditing Standards, International Standards on Auditing and our internal standards.

Our audit was planned and performed to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements, assessing compliance with accounting principles, techniques and rules of statutory financial statements preparation, evaluating significant estimates made by the management of the Company and also assessment of statutory financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on these statutory financial statements and on whether accounting is conducted in accordance with the Russian legislation.

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**TRANSLATOR'S EXPLANATORY NOTE:** The above translation of the Auditor's report is provided as a free translation from Russian, which is the official and binding version. The English translation of enclosed financial statements does not contain the English translation of the Explanatory Notes, which are enclosed in the official Russian version of the Auditor's report.

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AUDITOR'S REPORT

- 4 The Company is accounting for two groups of fixed assets (Machinery and equipment used for generation of electrical and heating power and Heating pipelines) at revalued (replacement) cost. The last revaluation was performed as at 1 January 2002. Changes in the economy which took place during the period since the date of the last revaluation indicate material change of the revalued (replacement) cost of these fixed assets, which was not recognized in the Company's 2006 statutory financial statements.
- 5 The Company did not recognize in its statutory financial statements profit tax payables as at 31 December 2006 amounting to 576 million Roubles in line 624 "Accounts payable – taxes and levies" of the Balance Sheet and a corresponding accrual of profit tax in the same amount in line 150 "Current tax on profits" of the Statement of Profit and Losses (see paragraph 14 "Taxes" of the Section III of Explanatory Notes).
- 6 In our opinion, except for the effect of such adjustments, if any, as might have been required had we been able to examine sufficient evidence regarding the matters referred to in paragraph 4 of this report, and also except for the effect on the statutory financial statements of the matters referred to in paragraph 5 of this report, the statutory financial statements of the Company attached to this auditor's report fairly present, in all material respects, the financial position of the Company as at 31 December 2006 and financial results of its operations for the period from 1 January up to 31 December 2006 in accordance with requirements of the legislation of the Russian Federation applicable to statutory financial statements preparation.

21 March 2007

Director of joint stock company

A.V. Chmel

Statutory auditor  
Certificate No K 008770  
for general audit (termless)

S.A. Blokhin

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**TRANSLATOR'S EXPLANATORY NOTE:** The above translation of the Auditor's report is provided as a free translation from Russian, which is the official and binding version. The English translation of enclosed financial statements does not contain the English translation of the Explanatory Notes, which are enclosed in the official Russian version of the Auditor's report.

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## 9.4. Balance Sheet

		RUR'000	
	Indicator code	As of 31.12.2005	As of 31.12.2006
<b>ASSETS</b>			
<b>I. NONCURRENT ASSETS</b>			
Intangible assets	110	42	94
Fixed assets	120	38,330,619	40,275,999
Construction in progress	130	2,951,279	8,071,827
Income-bearing placements in tangibles	135	0	0
Long-term financial investments	140	31,387	25,693
Deferred tax assets	145	339	261
Sundry noncurrent assets	150	0	0
<b>Section I TOTAL</b>	<b>190</b>	<b>41,313,666</b>	<b>48,373,874</b>
<b>II. CURRENT ASSETS</b>			
Inventories, including:	210	3,320,635	4,675,754
stores, supplies and other similar valuables	211	3,058,725	4,326,284
rears and fatteners	212	73,547	83,059
expenditures for work in progress (distribution costs)	213	38,270	72,406
finished products and goods for reselling	214	32,311	25,646
goods forwarded	215	0	0
deferred expenses	216	117,782	168,359
other inventories and expenses	217	0	0
Value-added tax on valuables acquired	220	1,006,954	584,851
Receivables (expected to be paid in more than 12 months from the reporting date), including:	230	72,908	71,001
buyers and customers	231	10,054	171
Receivables (expected to be paid within 12 months after the reporting date), including:	240	6,257,111	9,632,412
buyers and customers	241	3,929,555	2,296,418
Short-term financial investments	250	17,392	910,427
Monetary assets	260	2,538,256	4,971,776
Sundry current assets	270	0	0
<b>Section II TOTAL</b>	<b>290</b>	<b>13,213,256</b>	<b>20,846,221</b>
<b>BALANCE</b>	<b>300</b>	<b>54,526,922</b>	<b>69,220,095</b>



		RUR'000	
	Indicator code	As of 31.12.2005	As of 31.12.2006
<b>LIABILITIES</b>			
<b>III. CAPITAL AND RESERVES</b>			
Charter capital	410	28,249,360	28,249,360
Company stocks redeemed from stockholders	411	0	0
Additional capital	420	8,910,561	8,896,312
Reserve capital, including:	430	508,339	612,435
reserve funds formed in compliance with the legislation	431	508,339	612,435
reserve funds formed in compliance with the constituent documents	432	0	0
Retained earnings (uncovered loss)	470	950,187	1,924,917
<b>Section III TOTAL</b>	<b>490</b>	<b>38,618,447</b>	<b>39,683,024</b>
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and credit facilities	510	957,188	20,283,054
Deferred tax liabilities	515	331,976	578,355
Other long-term liabilities	520	0	190,247
<b>Section IV TOTAL</b>	<b>590</b>	<b>1,289,164</b>	<b>21,051,656</b>
<b>V. SHORT-TERM LIABILITIES</b>			
Loans and credit facilities	610	8,856,645	869,941
Accounts payable, including:	620	5,115,780	7,035,210
suppliers and contractors	621	2,507,968	4,567,546
accrued payroll	622	210,237	215,424
debts payable to public extra-budgetary funds	623	62,859	86,327
arrears of taxes and levies	624	844,153	725,210
other accounts payable	625	1,490,563	1,440,703
Arrears of revenues payable to members (founders)	630	296	607
Deferred incomes	640	646,590	579,657
Provision for Liabilities and Charges	650	0	0
Other short-term liabilities	660	0	0
<b>Section V TOTAL</b>	<b>690</b>	<b>14,619,311</b>	<b>8,485,415</b>
<b>BALANCE</b>	<b>700</b>	<b>54,526,922</b>	<b>69,220,095</b>

**Statement of Valuables on Off-balance Sheet Accounts**

RUR'000

Metric	Indicator code	As of 31.12.2005	As of 31.12.2006
Fixed assets taken on lease, including:	910	178,454	139,608
on long-term leasing	911	166,523	112,899
Inventory taken in charge	920	101,393	15,747
Goods taken on commission	930	0	0
Bad debts written off to losses	940	2,509,951	2,056,449
Security for liabilities and payments received	950	347,098	1,967,421
Security for liabilities and payments issued	960	4,272,752	1,376,564
Depreciation of housing stock	970	7,296	4,146
Depreciation of utilities and other similar facilities	980	0	0
Intangible assets received for use	995	0	0

## 9.5. Profit and Loss Statement for 2006

Metric	Line code	RUR'000	
		For the reporting period	For the similar period of the previous year
<b>I. Income and expenditure for core activities</b>			
Proceeds from sales of goods, products, works, services (net of VAT, excises and similar mandatory payments)	010	70,267,375	71,010,108
Production cost of goods, products, works, services sold	020	(65,210,940)	(64,187,703)
Gross profit	029	5,056,435	6,822,405
Business expenses	030	(72,862)	(67,038)
Management expenses	040	-	-
<b>Sales profit (loss)</b>	<b>050</b>	<b>4,983,573</b>	<b>6,755,367</b>
<b>II. Other income and expenditure</b>			
Interest receivable	060	16,219	3,400
Interest payable	070	(538,412)	(1,131,400)
Revenues from interest in other organizations	080	24,525	4,713
Other income	090	2,329,224	2,983,256
Other expenses	100	(3,822,561)	(5,459,621)
<b>Pre-tax profit (loss)</b>	<b>140</b>	<b>2,992,568</b>	<b>3,155,715</b>
Deferred tax assets	141	(78)	(215)
Deferred tax liabilities	142	(246,379)	(32,941)
Profit tax expense – current	150	(1,222,386)	(1,040,633)
<b>Net profit (loss)</b>	<b>190</b>	<b>1,523,725</b>	<b>2,081,926</b>
FOF REFERENCE			
Standing tax liabilities (assets)	200	750,627	294,751
Basic earnings (loss) per share	201	0.0539	0.0737
Diluted earnings (loss) per share	202	0.0000	0.0000

## Decoding of Individual Profits and Losses

Metric	Line code	RUR'000	
		For the reporting period	For the similar period of the previous year
Penalties, fines and forfeits recognized or imposed by decision of the court (arbitration)			
profit	210	3,328	108,512
loss	211	114,384	311,614
Profit (loss) of previous years			
profit	220	218,502	71,605
loss	221	347,536	178,828
Reimbursement for losses inflicted by nonfulfillment or improper fulfillment of obligations			
profit	230	1,666	1,341
loss	231	26,813	4,157
Differences in rates of exchange for transactions in foreign currency			
profit	240	122,952	55,071
loss	241	23,057	114,013
Allocations toward assessed reserves			
loss	250	1,149,489	1,475,128
Writing off of accounts receivable and payable with expired period of limitation			
profit	260	2,554	1,771
loss	261	3,565	15,871

## 9.6. Capital Change Report for 2006

### I. Alteration in Capital

RUR'000

Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
item	code					
<b>Balance as of December 31 of the year preceding the previous year</b>						
	010	28,249,360	72,429,312	397,954	4,903,295	105,979,921
<b>2005 (previous year)</b>						
Changes in the accounting policy	011	x	x	x	-	-
Result from revaluation of fixed asset items	012	x	-	x	-	-
Changes in the accounting rules	013	x	-	x	-	-
<b>Balance as of January 1 of the previous year</b>						
	020	28,249,360	72,429,312	397,954	4,903,295	105,979,921
Result from recalculation of foreign currencies	023	x	-	x	x	-
Net profit	025	x	x	x	2,081,926	2,081,926
Dividends	026	x	x	x	(624,311)	(624,311)
Allocations to the reserve fund	030	x	x	110,385	(110,385)	-
Increase of the capital value for the account of:	040	-	-	-	54,639	54,639
additional issue of shares	041	-	x	x	x	-
increase of the shares par value	042	-	x	x	x	-
reorganization of the legal entity	043	-	x	x	-	-
other	044	-	-	-	54,639	54,639
Decrease of the capital value for the account of:	050	-	(63,518,751)	-	(5,354,977)	(68,873,728)
reduction of the shares par value	051	-	x	x	x	-
reduction of the number of shares	052	-	x	x	x	-
reorganization of the legal entity	053	-	x	x	-	-
other	054	-	(63,518,751)	-	(5,354,977)	(68,873,728)
<b>Balance as of December 31 of the previous year</b>						
	060	28,249,360	8,910,561	508,339	950,187	38,618,447
<b>2006 (reporting year)</b>						
Changes in the accounting policy	061	x	x	x	-	-
Result from revaluation of fixed asset items	062	x	-	x	-	-
Changes in the accounting rules	063	x	-	x	-	-
<b>Balance as of January 1 of the reporting year</b>						
	100	28,249,360	8,910,561	508,339	950,187	38,618,447
Result from recalculation of foreign currencies	103	x	-	x	x	-
Net profit	105	x	x	x	1,523,725	1,523,725
Dividends	106	x	x	x	(453,967)	(453,967)
Allocations to the reserve fund	110	x	x	104,096	(104,096)	-
Increase of the capital value for the account of:	120	-	5,622	-	19,871	25,493
additional issue of shares	121	-	x	x	x	-
increase of the shares par value	122	-	x	x	x	-
reorganization of the legal entity	123	-	x	x	-	-
other	124	-	5,622	-	19,871	25,493
Decrease of the capital value for the account of:	130	-	(19,871)	-	(10,803)	(30,674)
reduction of the shares par value	131	-	x	x	x	-
reduction of the number of shares	132	-	x	x	x	-
reorganization of the legal entity	133	-	x	x	-	x
other	134	-	(19,871)	-	(10,803)	(30,674)
<b>Balance as of December 31 of the reporting year</b>						
	140	28,249,360	8,896,312	612,435	1,924,917	39,683,024

**II. Provisions**

RUR'000

Indicator		Balance	Received	Used	Balance
item	code				
<b>Reserve funds formed in compliance with the legislation:</b>					
data of the preceding year	150	397,954	110,385	-	508,339
data of the reporting year	151	508,339	104,096	-	612,435
<b>Reserve funds formed in compliance with the constituent documents</b>					
data of the preceding year	152	-	-	-	-
data of the reporting year	153	-	-	-	-
<b>Assessed reserves:</b>					
<b>bad debt provision</b>					
data of the preceding year	160	7,445,814	1,475,128	(7,493,809)	1,427,133
data of the reporting year	161	1,427,133	1,149,489	(1,466,405)	1,110,217
<b>provision for impairment of financial investments</b>					
data of the preceding year	162	-	-	-	-
data of the reporting year	163	-	5,403	-	5,403
<b>provision for liabilities arising due to recognizing that the business may be wound up</b>					
data of the preceding year	164	-	-	-	-
data of the reporting year	165	-	-	-	-
<b>provision formed in connection with the consequences of business contingencies</b>					
data of the preceding year	166	-	-	-	-
data of the reporting year	167	-	-	-	-
<b>provision for reduction in the value of tangible valuables</b>					
data of the preceding year	168	-	-	-	-
data of the reporting year	169	-	-	-	-
<b>other</b>					
data of the preceding year	170	-	-	-	-
data of the reporting year	171	-	-	-	-
<b>Provision for Liabilities and Charges</b>					
<b>provision for payment of a remuneration upon the year results</b>					
data of the preceding year	180	-	-	-	-
data of the reporting year	181	-	-	-	-
<b>provision for payment of vacations (including allocations)</b>					
data of the preceding year	182	-	-	-	-
data of the reporting year	183	-	-	-	-
<b>provision for payment of annual long-service benefits</b>					
data of the preceding year	184	-	-	-	-
data of the reporting year	185	-	-	-	-
<b>provision for repairs of fixed assets</b>					
data of the preceding year	186	-	-	-	-
data of the reporting year	187	-	-	-	-
<b>other</b>					
data of the preceding year	188	-	-	-	-
data of the reporting year	189	-	-	-	-

**Reference Information**

RUR'000

Indicator item	code	Balance as at the beginning of the accounting year		Balance as at the end of the accounting year	
		Budgetary funds	Extra-budgetary funds	Budgetary funds	Extra-budgetary funds
		for the accounting year	for the preceding year	for the accounting year	for the preceding year
<b>1) Net assets</b>	<b>200</b>	<b>39,265,037</b>		<b>40,262,681</b>	
<b>2) Received for core activities spending – total</b>	<b>210</b>	<b>22,714</b>	<b>9,872</b>	<b>270</b>	<b>623</b>
including:					
for payments to Chernobyl victims	211	1,279	355	-	-
other	212	21,435	9,517	270	623
capital investments in non-current assets	220	-	-	-	-
including:					
	221	-	-	-	-
	222	-	-	-	-

## 9.7. Cash Flow Statement for 2006

RUR'000

Indicator		For the reporting period	For the similar period of the previous year
item	code		
<b>Opening cash flow</b>	010	<b>2,522,664</b>	<b>4,993,364</b>
<b>Cash flow for day-to-day operation</b>			
Cash received from buyers, customers	020	83,014,987	79,029,290
Receipts of purchased foreign currency	030	672,331	762,904
Proceeds from contingencies	040	2,338	43,346
Cash received from in-house account	045	43,332,879	30,617,255
Other income (proceeds)	050	1,500,097	4,057,053
<i>cash refunds</i>	0501	1,301,089	285,246
<i>other income (proceeds)</i>	0502	199,008	3,771,807
Cash allocated for:			
payment for purchased goods, works, services, raw materials and other current assets	150	(23,085,284)	(23,193,002)
payment for labor	160	(4,569,235)	(6,315,475)
payment of dividends, interest	170	(412,785)	(562,946)
payment of taxes and levies	180	(4,854,841)	(9,576,166)
contingency payments	181	0	0
in-house interaccount transfers	182	(43,332,879)	(30,617,255)
social transfers	183	(283,920)	(65,047)
other expenses (payments)	190	(45,118,443)	(48,047,549)
<i>allocations to state off-budget funds</i>	1901	(1,204,533)	(1,524,843)
<i>payment of interest on loans and borrowings</i>	1902	(844,275)	(1,163,578)
<i>advances granted</i>	1903	(40,872,507)	(38,466,888)
<i>other expenses</i>	1904	(2,197,128)	(6,892,240)
<b>Net cash from day-to-day operations</b>	200	<b>6,865,245</b>	<b>(3,867,592)</b>
<b>Cash flow in investment activities</b>			
Proceeds from sales of fixed assets and other non-current assets	210	22,317	277,463
Proceeds from sales of securities and other financial investments	220	154	153,085
Dividends received	230	22,318	4,297
Interest received	240	629	4
Proceeds from repayment of borrowings granted to other organizations	250	0	0
Other receipts	260	9,990,985	50,790
<i>special-purpose financing</i>	2601	0	960
<i>other receipts</i>	2602	9,990,985	49,830
Acquisition of subsidiaries	280	0	0
Acquisition of fixed assets, income-bearing placements in tangible and intangible assets	290	(6,452,613)	(1,203,499)
Acquisition of securities and other financial investments	300	0	0
Borrowings granted to other organizations	310	0	0
Other expense	320	(8,207,482)	(1,290,810)
<i>share participation in construction</i>	3201	0	(12,629)
<i>advances granted</i>	3202	(7,888,222)	(1,194,417)
<i>other expense</i>	3203	(319,260)	(83,764)
<b>Net cash from investment activities</b>	340	<b>(4,623,692)</b>	<b>(2,008,670)</b>

RUR'000

Indicator		For the reporting period	For the similar period of the previous year
item	code		
<b>Cash flow in financial activities</b>			
Proceeds from issuing shares and other equity securities	350	9,998,100	0
Proceeds of loans and credit facilities granted by other organizations	360	21,695,858	31,905,000
Receipt of funds under target financing	370	21,496	9,874
Other income	380	3,300,000	200,016
<i>JSB Gazprombank (CJSC) deposit</i>	3801	3,300,000	200,016
<i>Short-term deposits</i>	3802	0	0
Repayment of loans and credit facilities (net of interest)	390	(30,492,309)	(28,600,455)
Extinction of financial lease obligations	400	(117,294)	(84,962)
Other expense	405	(4,200,003)	(9,769)
<i>Financial investments</i>	40501	(4,200,000)	(9,769)
<i>other expense</i>	40502	(3)	0
<b>Net cash from financial activities</b>	<b>410</b>	<b>205,848</b>	<b>3,419,704</b>
Net increase (decrease) in cash and cash equivalents	420	2,447,401	(2,456,558)
<b>Cash balance as at the end of the accounting period</b>	<b>430</b>	<b>4,970,065</b>	<b>2,536,806</b>
Effect of foreign exchange movements with respect to ruble	440	(14,142)	(5,785)



## 9.8. Annex to the Balance Sheet for 2006

### Intangible Assets

RUR'000

Indicator		Existence as of the beginning of the reporting year	Received	Retired	Existence as of the end of the reporting period
Item	code				
Intellectual property objects (exclusive rights to intellectual property results)	010	50	96	(50)	96
including:					
with the patent holder to invention, industrial design, utility model	011	0	0	0	0
with the right holder to software programs, databases	012	0	0	0	0
with the holder to trademark and service mark, name of the place of origin of the goods	014	50	96	(50)	96
Organizational expenses	020	0	0	0	0
Goodwill	030	0	0	0	0
Others	040	0	0	0	0
<b>Total</b>	<b>045</b>	<b>50</b>	<b>96</b>	<b>(50)</b>	<b>96</b>

Indicator		As of the beginning of the reporting year	As of the end of the reporting period
Item	code		
Depreciation of intangible assets, total	050	8	2

**Fixed Assets**

RUR'000

Indicator		Existence as of the beginning of the reporting year	Received	Retired	Existence as of the end of the reporting period
Item	code				
Buildings	110	21,557,038	311,241	(36,619)	21,831,660
Facilities and transfer devices	111	24,742,358	957,036	(329,645)	25,369,749
Machines and equipment	112	45,221,369	3,552,672	(281,934)	48,492,107
Transport vehicles	113	399,669	52,470	(19,241)	432,898
Production and household tools	114	130,355	22,212	(14,637)	137,930
Draft cattle	115	0	0	0	0
Productive livestock	116	74,113	42,687	(26,590)	90,210
Perennial planting	117	84	0	0	84
Other types of fixed assets	118	64,278	5,244	(7,637)	61,885
Land and objects of nature management	119	85	0	0	85
Capital investments for profound improvement of land	120	0	0	0	0
<b>Total</b>	<b>130</b>	<b>92,189,349</b>	<b>4,943,562</b>	<b>(716,303)</b>	<b>96,416,608</b>

Indicator		As of the beginning of the reporting year	As of the end of the reporting period
Item	code		
Depreciation of fixed assets, total	140	53,858,730	56,140,609
including:			
buildings and facilities	141	23,448,523	24,199,192
machines, equipment, transport vehicles	142	30,318,429	31,842,154
others	143	91,778	99,263
Fixed assets items given on lease, total	150	12,209,149	12,271,663
including:			
buildings and facilities	151	12,135,402	11,950,307
machines, equipment, transport vehicles	152	71,566	319,544
others	153	2,181	1,812
Fixed asset items laid up	155	70,434	207,766
Fixed asset items received on lease, total	160	178,454	139,608
including:			
buildings and facilities	161	11,007	18,278
machines, equipment, transport vehicles	162	167,062	121,330
others	163	385	0
Real estate accepted for operation and undergoing state registration	165	478,169	111,486

**FOR REFERENCE**

Result of revaluation of fixed asset items:			
original (replacement cost) value	170	0	0
depreciation	171	0	0
depreciation	172	0	0
Change in the value of fixed asset items as a result of additional construction, additional equipment, refurbishment, and partial liquidation	180	6,159,457	7,586,544

**Income-bearing Placements in Tangibles**

RUR'000

Indicator		Existence as of the beginning of the reporting year	Received	Retired	Existence as of the end of the reporting period
Item	code				
Property given on lease	210	0	0	0	0
Property given under a rent agreement	220	0	0	0	0
Others	230	0	0	0	0
<b>Total</b>	<b>240</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
		<b>As of the beginning of the reporting year</b>		<b>As of the end of the reporting period</b>	
Depreciation of income-bearing placements in tangibles	250		0		0

**Expenses of Research, Development and Technological Works**

RUR'000

Types of work		Existence as of the beginning of the reporting year	Received	Written off	Existence as of the end of the reporting period
Item	code				
<b>Total</b>	<b>310</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
including:					
	311	0	0	0	0
	312	0	0	0	0
	313	0	0	0	0

**FOR REFERENCE**

	code	As of the beginning of the reporting year	As of the end of the reporting period
Amount of expenses of incomplete research, development and technological works	320	0	0
		<b>For the reporting period</b>	<b>For the similar period of the previous year</b>
Amount of unsuccessful expenses of research, development and technological works charged to non-operating expenses	330	0	0

### Expenses of Development of Natural Resources

RUR'000

Indicator		Existence as of the beginning of the reporting year	Received	Written off	Existence as of the end of the reporting period
Item	code				
Expenses of development of natural resources, total		410	0	0	0
including:					
		411	0	0	0
		412	0	0	0
		413	0	0	0

### FOR REFERENCE

	code	As of the beginning of the reporting year	As of the end of the reporting period
Amount of expenses for land plots not completed by prospecting and appraisal of deposits, exploration and (or) hydro geological surveys and other similar works	420		0
Amount of expenses for development of natural resources charged in the reporting period to non-operating expenses as unsuccessful	430		0

### Financial Investments

RUR'000

Indicator		Long-term		Short-term	
		as of the beginning of the reporting year	as of the end of the reporting period	as of the beginning of the reporting year	as of the end of the reporting period
Item	code				
Contributions to authorized (partners') capitals of other organizations, total	510	12,980	12,826	0	0
including those of subsidiaries and related business companies	511	12,980	12,826	0	0
State and municipal securities	515	18	18	0	0
Securities of other organizations, total	520	13,829	8,289	0	0
including debt securities (bonds, bills of exchange)	521	0	0	0	0
Borrowings granted	525	0	0	0	0
Deposits	530	0	0	0	900,000
Others	535	4,560	4,560	17,392	10,427
<b>Total</b>	<b>540</b>	<b>31,387</b>	<b>25,693</b>	<b>17,392</b>	<b>910,427</b>

### Out of the total amount, financial investments that have a current market value:

Contributions to authorized (partners') capitals of other organizations, total	550	0	0	0	0
including those of subsidiaries and related business companies	551	0	0	0	0
State and municipal securities	555	0	0	0	0
Securities of other organizations, total	560	0	0	0	0
including debt securities (bonds, bills of exchange)	561	0	0	0	0
Others	565	0	0	0	0
<b>Total</b>	<b>570</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### FOR REFERENCE

For financial investments that have a current market value, change in the value as a result of evaluation adjustment	580	0	0	0	0
For debt securities, the difference between the original value and the nominal value is charged to the financial result of the reporting period	590	0	0	0	0

**Accounts Receivable and Payable**

RUR'000

Indicator		Balance as of the beginning of the reporting year	Balance as of the end of the reporting year
item	code		
<b>Accounts receivable:</b>			
short-term, total	610	6,257,111	9,632,412
including:			
settlements with buyers and customers	611	3,929,555	2,296,418
advances granted	612	474,685	6,463,333
others	613	1,852,871	872,661
long-term, total	620	72,908	71,001
including:			
settlements with buyers and customers	621	10,054	171
advances granted	622	0	0
others	623	62,854	70,830
<b>Total</b>	<b>630</b>	<b>6,330,019</b>	<b>9,703,413</b>
<b>Accounts payable:</b>			
short-term, total	640	13,972,425	7,905,151
including:			
settlements with suppliers and contractors	641	2,507,968	4,567,546
advances received	642	366,450	1,027,743
settlements on taxes and levies	643	844,153	725,210
loans	644	8,856,645	635,680
borrowings	645	0	234,261
others	646	1,397,209	714,711
long-term, total	650	957,188	20,473,301
including:			
settlements with suppliers and contractors	651	0	0
settlements on taxes and levies	652	0	0
loans	653	957,188	10,283,054
borrowings	654	0	10,000,000
others	655	0	190,247
<b>Total</b>	<b>60</b>	<b>14,929,613</b>	<b>28,378,452</b>

**Expenses for Core Activities (by Cost Element)**

RUR'000

Indicator		For the reporting year	For the previous year
item	code		
Tangible expenses	710	51,782,057	34,163,494
Labor payment costs	720	5,556,746	6,323,023
Allocations for social needs	730	1,220,077	1,652,408
Depreciation	740	2,569,674	3,702,249
Other costs	750	4,155,248	18,413,567
Total for cost elements	760	65,283,802	64,254,741
Change in balances (increase [+], reduction [-]):			
work in progress	765	34,136	(150,790)
expenses of future periods	766	50,577	(373,011)
provisions for future expenses	767	0	0

**Security**

RUR'000

Indicator		Balance as of the beginning of the reporting year	Balance as of the end of the reporting year
item	code		
Received, total	810	347,098	1,967,421
including:			
bills of exchange	811	0	0
Property pledged	820	77,555	57,249
out of it:			
fixed asset items	821	77,555	57,249
securities and other financial investments	822	0	0
others	823	0	0
Issued, total	830	4,272,752	1,376,564
including:			
bills of exchange	831	2,413,000	0
Property pledged	840	1,854,332	1,163,827
out of it:			
fixed asset items	841	500,978	1,163,827
securities and other financial investments	842	0	0
others	843	1,353,354	0

**State Assistance**

RUR'000

Indicator		Reporting period	For the similar period of the previous year		
item	code				
Budget funds received in the reporting year, total	910	21,414	9,517		
including:					
Subsidies for agriculture	911	21,414	9,517		
Others	912	-	-		
		as of the beginning of the reporting year	received in the reporting period	refunded in the reporting period	as of the end of the reporting period
Budget loans, total	920	0	0	0	0
including					
	921	0	0	0	0
	922	0	0	0	0

## 9.9. Explanatory Note

### I. Company Profile

MOSENERGO is a regional power company with operations covering electricity generation and facilities for supply of electricity to the wholesale market, heat generation and sales to end users in Moscow and Moscow Region.

MOSENERGO was registered in the Russian Federation on April 6, 1993 under Resolution No. 169-R issued by the State Property Management Committee on March 26, 1993. As a result of privatisation of the Russian power industry, the state-owned company MPO MOSENERGO was re-incorporated as an open joint-stock company, with individual assets and liabilities previously under control of the Ministry of Fuel and Energy of the Russian Federation being transferred to the company's balance sheet.

**Full business name:**

Open joint-stock power and electrification company MOSENERGO.

**Location and postal address:**

8, Raushskaya naberezhnaya, Moscow 115035.

**Date of state registration:**

April 6, 1993, registration number 012.473.

The average annual listed personnel in the reporting period was 18,459 employees.

**Authorised Capital**

The Company's authorised capital is RUR 28,249,360 thousand as divided into 28,249,359,700 ordinary shares of RUR 1 par value each.

RAO UES of Russia holds a 50.90 percent interest in the company.

The Company's shareholders registered as of the date of the last general meeting of shareholders taking into account the information disclosed by nominal holders are 21,615, of whom 21,615 shareholders have the right to participate in the general annual meeting.

#### 1.1. Organisational Structure

Under the Company's Charter, MOSENERGO included 33 affiliates as of January 1, 2006, of which 17 were power plants with total installed capacity of MW 10,677 thousand including the peak load LAPS-3 equipped with gas turbine units.

The interests of MOSENERGO in agreements with heat users is represented by Teplosbyt, LAPS-3, TEP-17 on the basis of proxies issued to them.

MOSENERGO comprises repair works CRMZ and OZAP engaged in equipment repairs and production of industrial products.

Apart from repair works, MOSENERGO incorporates a number of special purpose affiliates.

Mosenergospetsremont (MESR) is engaged in repairs of chimneys, coolers, dams, ash dumps and other buildings and facilities. The company also acts as the general contractor in construction of facilities for MOSENERGO.

Energosvyaz is the operator of telephone channels and radio stations, automatic and telematic equipment.

The Special Construction Technological Bureau for High-Voltage and Cryogenic Technology (SKTB VKT) is engaged in development, research and testing of high-voltage oil-filled and polyethylene cables, gas-insulated equipment, electric instruments for automation of process flows.

Mosenergoprojekt (MEP), an affiliate of the Company, is engaged in design work on combined heat & power plants, heating mains, power substations and other equipment.

The Information-Computing center (IVC) is the general developer of automated systems for process flow management at plants and networks.

The truck fleet provides MOSENERGO's affiliates with motor transport, hoisting mechanisms and heavy trucks.

Mosenergoladka (MEN) is a special purpose setup affiliate designed to perform setup and experimental work on newly commissioned and operating equipment of power plants and networks.

The Industrial-Technological Completing Enterprise (PPTK) is designed to provide company affiliates with equipment and materials for capital construction and repairs, and to make industrial products such as towers, timber and consumer goods.

Moselectroremenergo (MERE) is designed to perform installation, setup, repairs and reconstruction of electric equipment, control and measurement instruments, security and fire safety alarm and automation systems at affiliates of MOSENERGO.



Energotorg is engaged in sales, marketing, commercial intermediation and purchasing activities to sell consumer goods and provide services to the public at large and third-party entities.

APK Shatursky is an agricultural affiliate for provision of the Company's employees with agricultural produce.

Beginning from 2002, MOSENERGO embarked on the preparatory stage to the Company's restructuring, with the reform process being completed in 2005. The year of 2006 was the first period of MOSENERGO's operation in a new environment.

**1.2. Company Executive Bodies**

1. General Meeting of Shareholders.
2. Company Board of Directors.
3. General Director – Chairman of the Company Executive Board.
4. Company Executive Board.

**Composition of the Board of Directors, Audit Commission and Executive Board of MOSENERGO in 2006**

Before the 2006 annual meeting of shareholders, the Company's management bodies included the following persons:

**Board of Directors**

Full Name	Job Title
1. Yuriy Arkadievich Udaltsov	Chairman of the Board of Directors, MOSENERGO; Member of the Executive Board, Head of the Reform Management Center, RAO UES of Russia
2. Pyotr Nikolayevich Aksenov	First Deputy Mayor of Moscow in the Moscow Government, Head of the Municipal Services and Facilities of Moscow
3. Alexey Feliksovich Bodunkov	Minister of Property Relations, Government of the Moscow Region
4. Dmitry Velerievich Vasiliev	Senior Deputy General Director, Strategy and Corporate Policies, MOSENERGO
5. Anatoly Anatolievich Gavrilenko	General Director, ZAO Leader
6. Oleg Markovich Dubnov	Senior Deputy General Director, Institute of Professional Directors Foundation
7. Anatoly Yakovlevich Kopsov	Chairman of the Executive Board, General Director, MOSENERGO
8. Artyom Vladislavovich Kuznetsov	Senior Vice-President, NP GUTA Group
9. Alexey Anatolievich Matveyev	Deputy Chairman, Executive Board, JSB Gazprombank (CJSC)
10. Pavel Stepanovich Smirnov	Member to the Executive Board, RAO UES Russia
11. Alexander Ivanovich Sobol	Deputy Chairman, Executive Board, JSB Gazprombank (CJSC)
12. Alexander Vasilievich Tchikunov	Managing Director, Business Unit No. 1, RAO UES of Russia
13. Dmitry Viktorovich Shtykov	General Director, Institute of Professional Directors Foundation

### Audit Commission

Full Name	Job Title
1. Andrey Vladimirovich Gabov	Head, Corporate Management Department, Corporate Centre of RAO UES of Russia
2. Olga Andreyevna Sannikova	Operations Director, Investment Operations of JSB Gazprombank (CJSC)
3. Sergey Borissovich Sidorov	Head, Internal Audit Department, Corporate Centre of RAO UES of Russia
4. Dmitry Yurievich Tushunov	Senior economist, ZAO Leader
5. Igor Ivanovich Uzgorov	Head, Financial and Economic Activities Control Department, DZO, Business Unit No. 1, RAO UES of Russia

### Executive Board

Full Name	Job Title
1. Anatoly Yakovlevich Kopsov	Chairman of Executive Board, General Director, MOSENERGO
2. Alexander Alexandrovich Negomedzyanov	Senior Deputy General Director for Financial and Economic Issues, Logistics and Sales, MOSENERGO, Deputy Chairman of Executive Board
3. Urusbiy Agubekirovich Balikoyev	Director, OAO Moscow Heat Network Company
4. Dmitry Alexandrovich Barshak	Director for Thermal Engineering, MOSENERGO
5. Yevgeny Ivanovich Borisov	Deputy General Director for Finance, MOSENERGO
6. Dmitry Valerievich Vasiliev	Senior Deputy General Director for Strategy and Corporate Policies, MOSENERGO
7. Yuriy Leonidovich Guskov	Director, TEP-21, a MOSENERGO branch
8. Tatiana Petrovna Dronova	Chief Accountant, MOSENERGO
9. Alexey Nikolayevich Karev	Director, Central Mechanical Repair Works (CRMZ), a MOSENERGO branch
10. Vladimir Anatolievich Kimerin	General Director, Mosenergosbyt, Deputy General Director for Energy Sales, Power Marketing Operations, MOSENERGO
11. Vasiliy Yakovlevich Krivonosov	Deputy General Director for General Affairs, MOSENERGO
12. Anatoly Pavlovich Kuleshov	Director for Capital Construction, MOSENERGO
13. Sergey Yurievich Rummyantsev	Deputy General Director for Economics, MOSENERGO
14. Vladimir Valentinovich Sergeev	Senior Deputy General Director – Chief Engineer, MOSENERGO
15. Nestor Ivanovich Serebryanikov	Advisor to General Director, MOSENERGO

The General Meeting of shareholders of MOSENERGO following performance in 2005 was held on May 26, 2006. The General Meeting approved the Company's annual report, annual accounting statements, profit and loss statement following the results of the financial year, distribution of profit earned by the Company in 2005, amount of dividends payable per share. Also, election of members to the Company's Audit Commission and Board of Directors was held, the Company's auditor for the next period – ZAO PricewaterhouseCoopers Audit – was approved, a decision to pay remuneration and compensation to members of the Board of Directors and Audit Commission was taken, amendments to the Company's Charter were made, and new wording of the Company's internal documents was adopted at this meeting.

Following the results of voting, the following persons were elected to the Board of Directors of MOSENERGO:

Full Name	Job Title
1. Yuriy Arkadievich Udaltsov	Chairman of the Board of Directors, MOSENERGO; Member of the Executive Board, Head of the Reform Management Center, RAO UES of Russia
2. Pyotr Nikolayevich Aksenov	First Deputy Mayor of Moscow in the Moscow Government, Head of the Municipal Services and Facilities of Moscow
3. Anatoly Anatolievich Gavrilenko	General Director, ZAO Leader (the Pension Fund Assets Management Company)
4. Ilias Shamilevich Zagretdinov	Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia
5. Anatoly Yakovlevich Kopsov	Chairman of the Executive Board, MOSENERGO, General Director, MOSENERGO
6. Yevgeny Ilyich Logovinsky	Deputy Chairman of the Executive Board, OAO SOGAZ
7. Aleksey Anatolievich Matveyev	Deputy Chairman of the Executive Board, JSB Gazprombank (CJSC)
8. Alexander Alexandrovich Negomedzyanov	Senior Deputy General Director for Financial and Economic Issues, Logistics and Sales, MOSENERGO
9. Maria Nikolayevna Pichugina	Deputy Managing Director, Executive Director, Business Unit No. 1, RAO UES of Russia
10. Wolfgang Skribot	Managing Director, Corporate Finance Department, JSB Gazprombank (CJSC)
11. Pavel Stepanovich Smirnov	Member of the Executive Board, RAO UES of Russia
12. Alexander Ivanovich Sobol	Deputy Chairman of the Executive Board, JSB Gazprombank (CJSC)
13. Sergey Sergeyeovich Fil	Head of the Department of Corporate Events, Business Unit No. 1, RAO UES of Russia

**The following persons were elected to the Company's Audit Commission:**

Full Name	Job Title
1. Sergey Vyacheslavovich Vasiliev	Head of the Legal Department, RAO UES of Russia
2. Olga Andreyevna Sannikova	Operating Director for Investment Activities, JSB Gazprombank (CJSC)
3. Sergey Borisovich Sidorov	Head of the Internal Audit Department, RAO UESR Corporate Center
4. Dmitry Yurievich Tushunov	Chief Economist, ZAO Leader
5. Igor Ivanovich Uzgorov	Head of the SACs Financial and Economic Operations Control Department, Business Unit No. 1, RAO UES of Russia

**The Board of Directors of MOSENERGO elected a new composition of the Company's Executive Board:**

Full Name	Job Title
1. Anatoly Yakovlevich Kopsov	Chairman of the Executive Board, MOSENERGO, General Director, MOSENERGO
2. Alexander Alexandrovich Negomedzyanov	Senior Deputy General Director for Financial and Economic Issues, Logistics and Sales, MOSENERGO
3. Dmitry Alexandrovich Barshak	Director for Thermal Engineering, MOSENERGO
4. Yevgeny Ivanovich Borisov	Deputy General Director for Finance, MOSENERGO
5. Dmitry Valerievich Vasiliev	Senior Deputy General Director for Strategy and Corporate Policies, MOSENERGO
6. Yuriy Leonidovich Guskov	Director of TEP-21, a MOSENERGO branch
7. Tatiana Petrovna Dronova	Chief Accountant, MOSENERGO
8. Yuriy Efimovich Dolin	Deputy General Director for Capital Construction and Procurement, MOSENERGO
9. Aleksey Nikolayevich Karev	Director of the CRMZ (Central Mechanical Repair Workshop), a MOSENERGO branch
10. Vladimir Anatolievich Kimerin	General Director, Mosenergosbyt, Deputy General Director for Energy Sales, MOSENERGO (pluralistically)
11. Vasily Yakovlevich Krivonosov	Deputy General Director for General Affairs, MOSENERGO
12. Anatoly Pavlovich Kuleshov	Director for Capital Construction, MOSENERGO
13. Sergey Yurievich Rumyantsev	Deputy General Director for Economics, MOSENERGO
14. Vladimir Valentinovich Sergeyev	Senior Deputy General Director - Chief Engineer, MOSENERGO
15. Nestor Ivanovich Serebryanikov	Adviser to the General Director, MOSENERGO

## II. Accounting Policies

The Company's accounting report has been prepared on the basis of accounting policies.

### 1. Basis for Preparation

Financial statements were prepared on the basis of accounting and reporting rules effective in the Russian Federation, in particular, Federal Law No. 129-FZ "On Accounting" dated November 21, 1996, Accounting Provisions "Corporate Accounting Policies" PBU 1/98 approved by Ordinance No. 60n issued by the RF Ministry of Finance on December 9, 1998, and Provisions for Accounting and Reporting in the Russian Federation approved by Ordinance No. 32n issued by the RF Ministry of Finance on July 29, 1998.

Economic transactions were recognised in financial statements in accordance with the Working Chart of Accounts of Financial and Economic Operations of MOSENERGO as approved by MOSENERGO General Director Order No. 759 dated December 15, 2005. MOSENERGO and all its affiliates will apply interdepartmental model forms of primary accounting documents as recommended by the State Committee for Statistics of Russia (Rosstat), the RF Ministry of Finance and other authorised government executive agencies.

Financial and business transactions for which no model forms of primary accounting documents are provided, as well as internal accounts are documented with the use of forms of primary accounting documents approved by MOSENERGO.

Assets, liabilities, and economic operations are denominated in rubles, the legal tender of the Russian Federation.

The Company's assets and liabilities are valued in financial statements at the actual cost of their purchase, except fixed and intangible assets, financial investments for which their current market value was determined, and assets for which impairment provisions were established as legally provided for.

### 2. Foreign Currency Denominated Assets and Liabilities

Economic transactions performed in a foreign currency were recognised at the official rouble exchange rate effective as of the transaction date. Cash amounts in foreign exchange and deposit accounts with banks and cash department, financial investments into short-term securities and float including issued and received foreign currency denominated loans were recognised in financial statements as calculated on the basis of official exchange rates as of December 31, 2006. As of this date, the exchange rates were RUR 26.3311 for 1 USD (RUR 28.7825 as of December 31, 2005), RUR 34.6965 for Euro 1 (RUR 34.1850 as of December 31, 2005).

Exchange rate differentials arising in transactions with foreign currency denominated assets and liabilities over the year, and in their revaluation as of the reporting date were applied to the financial result as other revenues and expenses.

### 3. Current and Non-Current Assets and Liabilities

In the accounting balance sheet, assets and liabilities are recognised as current where their maturity (repayment period) does not exceed 12 months after the reporting date. Other assets and liabilities are shown as non-current.

### 4. Intangible Assets

Throughout 2005, the intangible assets included MOSENERGO's trademark.

In the financial statements, intangible assets are shown at their historic cost minus depreciation accumulated over the period of their useful life.

### 5. Fixed Assets

Fixed assets include assets that are used in output of products, execution of works, rendering of services, as well as for management exigencies of MOSENERGO during a term lasting more than 12 months.

An inventory item recognised as a fixed asset is an individual structurally separated element designed for specific independent operation or a separated set of structurally linked elements representing an entity and designed for specific operations.

Where a facility incorporates several parts of varying useful life, each such part is to be recognised as an independent inventory item.

Fixed assets worth up to RUR 10,000 per unit, and purchased books, booklets and similar publications not included into the library stock are to be written off to expenses as they are issued to production or operation without being recognised in account 02 "Fixed Asset Depreciation". In order to ensure security of these items in production or operation, MOSENERGO will organise control over their flows and availability in terms of their number.

Fixed assets are recognised at their historic cost. Where fixed assets were purchased for a fee, the historic cost is determined as a sum of actual expenses associated with their purchase, erection and manufacture, less VAT and other recoverable taxes.

The historic cost of fixed assets received under agreements to be performed (paid for) on a non-cash basis is the cost of valuables passed or to be passed on behalf of the entity. The cost of valuables passed or to be passed by the entity is determined on the basis of the price which MOSENERGO would normally apply to determine the cost of similar valuables in comparable circumstances.

In the event of completion, additional equipment, reconstruction, upgrading and partial disposal of relevant facilities, the historic cost of fixed assets as recognised in accounting books can be changed by the value of incurred actual expenses or salvage value of partially disposed facilities.

Fixed assets are subject to straight-line depreciation. For the purposes of accounting of fixed assets recorded in the books before January 1, 2002, depreciation is accrued proceeding from the useful life thereof applicable as of the date of placing such fixed assets in operation. The useful life of fixed assets recorded in the books after January 1, 2002, for the purposes of accounting is determined according to the Russian Federation Government's Resolution No. 1 "On Classification of Fixed Assets Included in Depreciation Groups" dated January 1, 2002.

For fixed assets commissioned for operation before January 1, 2002, depreciation was accrued on the basis of standards approved by USSR Government Resolution No. 1072 dated October 22, 1990. For fixed assets commissioned for operation after January 1, 2002, depreciation was accrued in accordance with Government of the Russian Federation Resolution No. 1 "On Classification of Fixed Assets Included into Depreciation Groups" dated January 1, 2002.

No depreciation was accrued on land and housing facilities purchased before January 1, 2006, or on fully amortised facilities which were not written off the balance sheet. For housing facilities purchased from January 1, 2006, depreciation was accrued as normally provided for.

Income and expenditure incidental to the retirement of fixed assets are stated in the Profit and Loss Statement among operating income and expenses, with expenditure caused by write-off and gratuitous transfers of fixed assets shown as other expenses.

In disposing of fixed assets whose cost was increased as a result of revaluation, the amount of surplus value is to be written off the capital surplus account against a credit entry to the retained profit account of MOSENERGO.

Interest on loans raised to finance the purchase (construction) of fixed assets was included into the historic cost of these facilities. Interest accrued on loans after fixed assets were recognised in books is shown as other expenses.

The list of fixed assets is given in explanatory note III.1.

In 2005, the procedure of the Company's restructuring was drawn to completion, with 13 independent entities identified within the vertically integrated MOSENERGO and, therefore, the following independent lines of business:

- power and heat transmission and distribution;
- power sales to consumers;
- repair and construction services;
- four power plants.

While MOSENERGO remained the holder and operator of the main power and heat generating facilities after restructuring, the operating environment of the restructured Company has significantly changed as compared to the operating environment of a vertically integrated company.

Before completion of the restructuring process, the Company would recognise its fixed assets at their revalued replacement cost (with the fixed assets being last revalued as of January 1, 2002).

Due to a significant change in the Company's operating environment as a result of restructuring, the Company has changed its 2006 accounting policies as regards recognition of fixed assets:

- fixed assets purchased before January 1, 2002 are to be recognised at replacement cost to be determined at the revaluation date as of January 1, 2002;
- fixed assets purchased from January 1, 2002 through December 31, 2005 are to be recognised at their historic cost;
- starting from January 1, 2006, the Company will revalue two groups of fixed assets, namely, "Plant and equipment used for power and heat generation" and "Heat main networks". Other groups of fixed assets will not be subject to revaluation.

On March 5, 2007 the Company's Board of Directors decided to revalue the group of fixed assets "Plant and equipment used for power and heat generation" and "Heat main networks" as of January 1, 2007. A summary of estimated implications of critical aspects of this revaluation is given in the section "Events After the Reporting Date".

## 6. Financial Investments

Revenues and expenses on financial investments are recognised in the Profit and Loss Statement as other revenues and expenses. The Company set up provisions for impairment of financial investments, with the total amount applied to other expenses.

Financial investments with determinable current market value (tradable in the stock exchange) are recognised in accounting books at their current market value by adjustment of their value as of the previous reporting date on a quarterly basis. The difference between the value of financial investments estimated by their current market value as of the reporting data and the previous value of financial investments is applied to the financial result as operating revenues and expenses.

Impairment provisions for the difference between the book and estimated value are to be set up for financial investments with no determinable current market value which show a sustainable depreciation. A review of financial investments for impairment is performed once a year on December 31 of any reporting year, once there is indication of depreciation. The said provisions are formed at the expense of financial results attributable to operating expenses.

The list of subsidiaries and affiliates is given in the explanatory note.

## 7. Inventories

Inventories are assessed at their actual acquisition costs.

Inventories, tools and accessories with useful life of less than one year are recognised as inventories in account 10 "Materials".

Special tools, special accessories, special equipment (special fixtures) and workwear are recognised as inventories irrespective of their useful life.

In issuing inventories to production and other disposal, they are valued at the average cost of a group of similar inventories classified by stockage.

Deviations recognised in account 16 "Deviation in cost of valuables" are written off in proportion to the cost of materials issued to production depending on application of the expense item.

The cost of special tools, special accessories, special equipment (special fixtures), workwear (with useful life over 12 months) is written off on a straight-line basis depending on useful life of these items.

## 8. Production in Progress and Finished Products

Production in process is valued at cost without accounting for administrative expenses. The full amount of administrative expenses was written off on a monthly basis to the cost of sales in the reporting period.

The category of finished products reflects finished items which passed testing and were accepted as complete in accordance with requirements of applicable standards. Finished products were valued at their actual production cost without accounting for administrative expenses.

## 9. Deferred Expenses

Expenses incurred by the Company in the reporting year but attributable to the next reporting periods were recognised as deferred expenses. These expenses are to be written off evenly over the periods to which they are attributable in accordance with their purpose.

## 10. Trade Receivables

Trade receivables were determined on the basis of prices stipulated by agreements between the Company and buyers (customers) taking into account any available discounts (additions) and VAT.

Amounts due from each subscriber and payer for supply of power are registered by the General Directorate under agreement No. 441/56-210/7156-67 dated October 24, 2005 with Mosenergosbyt. Amounts due from each subscriber and payer for supply of heat are registered by Teplosbyt, an affiliate of MOSENERGO.

Bad debts are to be written off the balance sheet, once they are recognised.

Debts not paid when due under agreements and not secured by relevant guarantees or otherwise were shown less the bad debt provisions. These provisions are a conservative estimate by the Company's management of debts which are unlikely to be paid for. The bad debt provisions are established on the basis of results of a review of receivables. The amount of provisions is determined on a case-by-case basis depending on the financial position (solvency) of the debtor and the likelihood that the debt will be paid in whole or in part. Bad debt provisions were applied to increase of other expenses. Where these provisions are not expended before the end of the reporting year following the year of the provisions being established, the unexpended balance is to be applied to increase of the Company's other expenses.



### **11. Authorised, Surplus and Reserve Capital**

The charter capital is shown as the amount of ordinary shares purchased by their holders at par value. The amount of the charter capital corresponds to the one specified in the Company's Charter.

The amount of surplus value of fixed assets, capital construction facilities and other valuables with useful life of more than 12 months specified as legally provided for, and other similar amounts were recognised as surplus capital.

In building up the surplus capital, cash on commissioned fixed assets allocated from the Company's profits to finance capital expenditures was taken into account.

The surplus capital was built up at the expense of surplus value of fixed assets as determined by revaluation, premium realised from sale of the Company's shares at a price exceeding their par value, received donations, expended accumulation fund resulting from commissioning fixed assets financed at the expense of profit generated by the Company.

The Company has to build up reserve capital designed to compensate for any loss which, being not specifically determined, may still occur in economic turnover. The reserve capital is built up from the Company's net profit in the amount of 5 percent of the charter capital.

The Company has to allocate at least 5 percent of its net profit to the Reserve Fund on a mandatory basis until the legally established amount of the reserve fund is achieved.

### **12. Provisions for Deferred Expenses**

The Company does not set up any provisions for deferred expenses.

### **13. Distribution and Application of Profit**

The General Meeting of shareholders is authorised to approve application of MOSENERGO's profit remaining at the Company's disposal after deduction of profit tax and other similar mandatory payments, including sanctions for any incompliance with the tax regime.

In the profit and loss statement, the financial result of the reporting year is shown as net profit (retained profit), i.e. the end financial result identified in the reporting period less any taxes payable from profit and other similar mandatory payments including sanctions for incompliance with the tax regime and taking into account deferred tax assets and deferred tax liabilities.

### **14. Borrowings and Loans**

Transactions related to issuance of bonds are recognised in account 67 "Settlements on long-term borrowings and loans". The coupon yield (percent) and selling (distribution) price are determined by a decision of the Board of Directors of MOSENERGO.

Income (interest or discount) payable on outstanding bonds is paid in accordance with terms and conditions of the agreement and recognised by MOSENERGO as operating expenses incurred in those reporting periods to which these accruals are attributable.

The Company does not preliminarily recognise as deferred expense any amount of income on sold bonds payable to the lender.

The Company will translate long-term debt into short-term debt, once 365 days remain until the principal amount is to be repaid under the agreement.

Extra expenses incurred by the Company to receive borrowings and loans, issue and place borrowing obligations will include the cost of legal and consultancy services provided to the Company, document copying work, payment of taxes and duties (as provided for by the effective law), and other costs directly attributable to borrowings and loans and placing of borrowing obligations. Extra expenses attributable to borrowings and loans and placing of borrowing obligations are recognised in the reporting period in which these expenses were incurred.

### 15. Recognition of Income

Proceeds from sales of products and services were acknowledged, for the purposes of accounting, as the products were dispatched (or services rendered) to the buyers and settlement documents were presented by such buyers. These proceeds are reflected in the Profit and Loss Statement less the value-added tax, export duties, and other similar mandatory charges.

Recognized as other income of the Company are:

- proceeds associated with interest in charter capitals of other organizations;
- proceeds from sales of fixed and other assets, other than cash (save for foreign currency), products, goods;
- interest received for granting cash assets of the organization, as well as interest for use of cash assets by a bank deposited on the organization's account with the bank.

### 16. Segmented Disclosures

Segmented disclosures are not made since the Company's core business is power and heat generation which accounts for 93.1 percent of product (goods, services) sales. The Company is engaged in other business lines which are neither material nor form identifiable reporting segments either collectively or individually. The Company operates in the territory of the Russian Federation and does not identify individual geographic segments since the sources and nature of risks are approximately identical across the Russian Federation.

### 17. Changes in Accounting Policies

In accordance with changes to the procedure of accounting for income and expenses introduced by regulations of the Ministry of Finance of the Russian Federation, other income and other expenses should not be subdivided into operating, non-operating and extraordinary starting from financial statements for 2006. In this connection, the Company made changes to the form of the 2006 profit and loss statement, and adjusted comparative data for 2005 as shown in the Company's financial statements for 2006.

In the reporting year, the Company changed its treatment of expenses related to payment of corporate property tax. In 2006, amounts of the tax were applied to expenses of regular operations (in 2005, these expenses were recognised as other expenses). In this regard, the Company adjusted comparative data for 2005 as shown in the Company's 2006 financial statements.

The following significant change was made to the Company's accounting policies in 2006:

In 2006, because of a considerable change in the Company's operating environment as a result of restructuring, the Company's accounting policies applicable to fixed assets were changed:

- fixed assets purchased before January 1, 2002 are recognised at their replacement cost determined at the date of revaluation as of January 1, 2002;
- fixed assets purchased in the period from January 1, 2002 through December 31, 2005 are recognised at their historic cost;
- beginning from January 1, 2006 the Company will revalue two groups of fixed assets, namely, "Plant and equipment used for power and heat generation" and "Heat main networks". Other groups of fixed assets will not be subject to revaluation.

No other major change has been made to the Company's accounting policies in 2007.

## 18. Reference and Comparative Data

In the 2006 financial statements, comparative data were obtained by adjusting the data of the 2005 final statements to make them conform to changes in the 2006 pro forma financial statements.

This change was noted in the reference on the change of the balance sheet currency in line 470 and 460 of Accounting Balance Sheet form No. 1. Retained profit of the current year as of December 12, 2005 (line 470, Accounting Balance Sheet form No. 1) amounting to RUR 2,081,926 thousand was applied to retained profit of previous years (line 470, Accounting Balance Sheet form No. 1).

In connection with the change to the procedure of accounting for other income and expenses noted in paragraph 15, "Other operating income" (line 090) and "Non-operating income" (line 120) shown in the Company's 2005 profit and loss statement were replaced with "Other income" (line 090). Similarly, "Other operating expenses" (line 120) and "Non-operating expenses" (line 130) of the 2005 profit and loss statement were replaced with "Other expenses" (line 100) in the 2006 statement. In order to ensure comparability of the 2006 profit and loss statement with the previous year data, the latter were adjusted in line with the said change to the form of the Company's annual financial statements for 2006.

In addition, the 2005 comparative data were adjusted in connection with the change to treatment of corporate property tax noted in paragraph 15 in relation to accounting policies, and recognition of job quota tax and regular vacation benefits as unit cost. Previously, the job quota tax and vacation benefits were recognised as other expenses.

RUR'000

Item No.	Item name (line code)	Non-adjusted amount	Adjustment	Adjusted amount
1.	Cost of goods (products, services) sold (020)	63,108,986	1,078,717	64,187,703
2.	Other income (090)	0	-	-
3.	Other expenses (100)	6,538,338	-1,078,717	5,459,621
	<b>Total</b>	<b>69,647,324</b>	<b>0</b>	<b>69,647,324</b>

### III. Disclosure of Significant Reporting Indicators

#### 1. Fixed Assets

(line 120 of the Balance Sheet)

The cost of fixed assets by groups as of December 31, 2006 RUR'000

Item No.	Name of fixed asset group	Historic (replacement) cost	Salvage value	% of total replacement cost
1.	Buildings	21,794,648	13,770,492	22.60
2.	Facilities	25,369,749	9,192,341	26.31
3.	Plant and equipment	48,492,107	16,967,402	50.30
4.	Transport vehicles and other fixed assets	723,007	308,667	0.75
5.	Land	85	85	0
6.	Housing	37,012	37,012	0.04
	<b>Total</b>	<b>96,416,608</b>	<b>40,275,999</b>	<b>100</b>

Accrued depreciation:	
buildings	11.03%
facilities	24.52%
plant and equipment	62.61%
transport vehicles and other fixed assets	1.84%

Fixed assets commissioned over 12 months of 2006 totaled RUR 4,639.53 million, including:

- TEP-1 – replacement of turbine No. 31;
- LAPS-3 – a gas turbine commissioned at GTU-TEP in Elektrostal;
- TEP-9 – reconstruction of a steam exhaust system of turbines R-50-130, plant No. 5,10 with installation of system water heaters (peaking water heaters);
- TEP-21 – replacement of turbine unit No. 5;
- TEP-22 – technical upgrading of an emergency coal storage with cargo handling equipment replaced.

Work was completed to commission cells and capacity for additional power load on TEP MOSENERGO, with other work being performed.

The replacement cost of equipment (fixed assets) retired in 2006 was RUR 716,303 thousand.

In 2006, work was continued to ensure state registration of title to real estate of power plants, service and non-core branches.

As of January 1, 2007, once restructuring of MOSENERGO was completed and fixed assets passed to the balance sheet of split-off companies in accordance with the separation balance sheet, the Company had 3582 real estate items to be registered on its balance sheet, of which 3252 or 90 percent were registered. In 2007, state registration certificates were issued for 55 items.

The Company is still to register 330 items, with 195 relating to split-off companies by the technological principle.

Under Federal Law No. 69-FZ "On State Registration of Title to Real Estate and Related Transactions" dated June 09, 2003, a cadastral plan of the territory or plan of the property indicating its cadastral number is a mandatory attachment to documents required for state registration of title to real estate (Article 17).

This piece of legislation provides for a need to perform land surveying and ensure state cadastral registration of land used by MOSENERGO.

As of January 1, 2007 MOSENERGO ensured state cadastral registration of 216 locations totaling 6002 ha out of 624 locations totaling 7883 ha which accommodate the Company's facilities.

The cost of properties in process of state registration as accepted for operation and actually used is RUR 179 million.

## 2. Construction in Progress

(line 130 of the Balance Sheet)

The Company has been engaged in construction and reconstruction of facilities. As of the start of 2006, the costs attributable to construction in progress were RUR 2,377,061 thousand, with costs totaling RUR 9,588,868 thousand incurred over the year, and RUR 4,641,812 commissioned and written off, including RUR 1,838 thousand written off, and RUR 440 thousand of construction in progress sold. The remaining costs of construction in progress were RUR 7,324,117 thousand.

### The most significant facilities of capital construction:

Name of branch	Name of facility by title	Amount, RUR'000
TEP-27	Main building (title Severnaya TEP (TEP-27) MOSENERGO. Project adjustment with installation of power unit type CCP-450T No. 3, 4)	1,468,443
TEP-27	Ostashkovskaya heat main line from TEP-27	980,089
TEP-21	Capacity building of unit No. 11	687,232
TEP-16	Capacity building of GDU-10 kV	275,172
TEP-25	Third phase. Capacity building of WTP	259,005
General Directorate	Druzhinnikovskaya heat main line	226,349
IVC	Automated data measurement and billing system for commercial power supply and remote control systems (AEBS MOSENERGO)	225,883
TEP-22	Technical upgrading of an emergency coal storage	149,569
TEP-27	Cooler No. 2 (title Severnaya TEP (TEP-27) MOSENERGO. Project adjustment with installation of power unit type CCP-450T No. 3, 4)	129,698
TEP-26	Power unit CCP 400-420, power station No. 8	114,122
TEP-9	Reconstruction of turbine ST 60/75-130/13, power station 5	103,377
TEP-16	MUD cycle reconstruction	84,303
TEP-20	Distribution unit 10 kV	66,039
TEP-21	Reconstruction of GDU-10 kV No. 3	58,651
TEP-12	Reconstruction of CDU-110 kV with replacement	45,747
TEP-23	Reconstruction of boiler No. 8	45,047
TEP-1	Reconstruction of steam pipe at boiler plant No. 2	39,746
LAPS-3	Construction of GTU-TEP at Pavlovo-Posad	23,612
<b>Total</b>		<b>4,982,084</b>

### MOSENERGO Investment Program for 2007

Over the last few years the Moscow Region has been showing a sustainable growth of power consumption due a considerable increase of construction of housing, utilities and other facilities.

In 2006, an Investment Program for design, construction and commissioning of power generation facilities was adopted. The program is expected to be financed largely through issuance of additional shares of MOSENERGO (see Section 9 "Company Shares").

Under ordinance No. 679 "On Adjusting the 2006 Capital Construction Plan" dated December 29, 2006 capital construction was RUR 14,697.0 million in actual prices including RUR 5,949,173 thousand of advance payments to contractors estimated as of December 31, 2006.

In 2007, MOSENERGO expects to invest a total of RUR 33,357.24 million, including:

RUR 23,187.85 million into **new construction**, including RUR 21,033.08 million into construction of new power units based on high-performance combined cycle technology:

- unit No. 11 at TEP-21;
- unit No. 8 at TEP-26;
- units No. 3 and No. 4 at TEP-27;

**technical upgrading and reconstruction** – RUR 10,110.54 million including reconstruction of TEP-12 with CCP-170 to be installed (RUR 1,200.0 million), continued work to install GTE-65 with a steam exhaust-heat boiler at TEP-9 (RUR 450.0 million), continued work to upgrade an emergency coal storage (RUR 300.0 million) and to upgrade MUD at TEP-22 (RUR 700.0 million), process flow related work to increase reliability, environmental and fire safety (RUR 3,242.01 million), and reconstruction work on GDU-10 kV at TEPs MOSENERGO;

**non-industrial construction** – RUR 58.85 million including purchase of apartments for specialist staff at TEP-21, 26, 27 (RUR 50.0 million).

In 2007, it is expected to commission a total of 530 MW power generating facilities:

- unit No. 3 at TEP-27 – 450 MW;
- turbine No. 5 at TEP-9 – MW 20;
- upgrading ST-60-130 No. 1 at TEP-22 – 20 MW;
- electric power generation of CCP MES-60 at TEP-28 – 40 MW.

In 2007, it is also envisaged to complete a technical upgrading program aimed at increasing reliability of power equipment.

Priority areas in the 2007 investment program included construction of new power units based on high-performance combined cycle technology – No. 11 at TEP-21, No. 8 at TEP-26 and No. 3 at TEP-27.

### 3. Long-Term Financial Investments

(line 140 of the Balance Sheet)

At the close of the reporting year, the Company's long-term financial investments totaled RUR 25,693 thousand, of which 7.83% are investments in subsidiary companies, 56.59% – investments in associated companies, 17.77% – investments in other organizations, 17.81% – sundry long-term financial investments.

In 2006, long-term financial investments underwent the following changes:

1. Under the Board of Director's decision No. 12 dated October 30, 2006 it was decided to dispose of MOSENERGO's participation stakes in entities where the Company held stakes or shares of non-core assets:

- OAO MAB Tempbank;
- ZAO Metals Exchange.

In 2006, these shares were disposed of.

2. Under the MOSENERGO's Executive Board decision No. 41pr dated April 24, 2006, it was decided to dispose of MOSENERGO's participation stakes in entities where the Company held stakes or shares of non-core assets:

- OOO Teploset-Service.

In 2006, the participation stake in OOO Teploset-Service was disposed of.

**Long-term financial investments as of December 31, 2006**

RUR'000

Item No.	Company name	Core operations	Investment date	Contribution amount as of 31.12.2006	Amount of accrued provisions for impairment of financial investments as of 31.12.2006	Contribution amount as of 31.12.2006 plus accrued provisions	Share of the authorized capital held by MOS-ENERGO, %
1.	Energoinvest-ME, a closed joint-stock company	Brokerage services	1994	2,249.10	237.60	2,011,500	90.0
2.	Seba-energo, a limited liability company	Design and manufacture of instruments	1995	520.96	0	520.96	44.0
3.	Transport Investment Bank, a commercial bank (limited liability company)	Banking transactions	1997	12,304.90	0	12,304,90	24.61
4.	AOZT Mosenergo-Finance B.V.	Financial transactions	1997	118,139	118,139	0	100.0
5.	Ergomax production firm, a limited liability company	Repairs and construction	1993	0.5	0	0.5	24.27
6.	Shatura Peat Digging Industrial Association, an open joint-stock company	Peat digging	1998	1,712.524	0	1,712,52	33.99
7.	Energococonsult, a closed joint-stock company	Consultancy services, design activities, engineering services	1991	4.999	4.999	0	100.0
8.	EPA Energy Production Enterprise, a limited liability company	Travel, dental care	1991	153.375	153.375	0	99.92
9.	Segol RadioPage Inc.	Electric communications	1998	4,446.270	4,446.270	0	8.81

Long-term financial investments as of December 31, 2006

RUR'000

Item No.	Company name	Core operations	Investment date	Contribution amount as of 31.12.2006	Amount of accrued provisions for impairment of financial investments as of 31.12.2006	Contribution amount as of 31.12.2006 plus accrued provisions	Share of the authorized capital held by MOS-ENERGO, %
10.	Moscon, a closed joint-stock company	Production waste disposal	1992	200.00	200.00	0	20.0
11.	Aquatron, a closed joint-stock company	Fishery	1991	0.02	0.02	0	0.67
12.	Khoroshevskaya Power Company, a closed joint-stock company	Construction of combined cycle TEP	1994	91.22	91.22	0	16.1
13.	Telecomenergo, a closed joint-stock company	Telecom	1999	150.0	150.0	0	15.0
14.	Energogarant-Invest Ltd, a closed joint-stock investment company	Investment, brokerage services	1998	3,000.0	0	3,000.0	12.0
15.	Energogarant, an open joint-stock insurance company	Insurance	1993	1,564.86	0	1,564.86	0.18
16.	Shatura Meat Factory, an open joint-stock company	Food	1992	0.891	0.891	0	1.1
17.	Kryokor, an open joint-stock company	Research and development	1993	0.25	0	0.25	0.59
18.	Other			4,577.75	0	4,577.75	
<b>Total</b>				<b>31,095.758</b>	<b>5,402.514</b>	<b>25,693.244</b>	



#### 4. Inventories

(line 210 of the Balance Sheet)

Inventories were valued as actual costs associated with their purchase, their value as of the year end being RUR 4,675,754 thousand which represented 22.43 percent of the Company's current assets or 6.75 percent of total assets.

The cost of fuel was RUR 2,998,412 thousand as of December 31, 2006 and RUR 1,945,282 thousand as of January 1, 2006.

#### 5. Trade Receivables

(lines 230 and 240 of the Balance Sheet)

The Company's core operations include generation of electric power to the wholesale market, and generation and supply of heat to the retail market of Moscow and Lubertsy, Dzerzhinsky, Stupino, Elektrogorsk, Elektrostal, Orekhovo-Zuyevo of the Moscow Region.

Throughout 2006, MOSENERGO would make settlements with customers for supply of electricity and heat at the tariffs established by the FTS of Russia, REC Moscow, Moscow Region Energy Committee (MREC), and at the tariffs of the competitive segment of the wholesale market for electric power.

Electric power tariffs for the Company's power plants were introduced since January 1, 2006 under FTS of Russia Ordinance No. 572-e/2 dated December 3, 2005, while the tariffs for consumers in the retail heat market under REC Moscow resolution No. 86 dated December for consumers located in the territory of Moscow and MREC Governing Board Protocol No. 37 dated December 27, 2005 for consumers located in the territory of the Moscow Region.

Since January 1, 2006 the following electricity tariffs are effective in the regulated segment of the wholesale market:

	2006	Tariff change as compared to 2005, %
Tariff rate for supplied capacity, RUR thousand/MW	93,682.8	21.0
Tariff rate for power, RUR/MWh	335.86	10.0
Average tariff, RUR/MWh	548.22	14.2

Heat tariffs: RUR/Gcal

	Average supply tariff in 2006		
	MOSENERGO	Moscow	Moscow Region
Approved	459.49	460.49	444.53
Actual	459.43	459.78	451.26

A minor reduction of the average tariff in Moscow was due to reduction of the tariff charged to consumers of heat as the tariff component relating to transport services did not apply to consumers operating their own heat grids.

**Increase of heat tariffs by consumer groups in 2006, (hot water)**

RUR/Gcal

Consumer groups	Moscow			Moscow Region		
	2005	2006	Growth, %	2005	2006	Growth, %
Public budget consumers	414.6	464.73	12.1	398.9	422.6	5.9
Population (VAT excluded)	246.56	328.81	33.3	333.0	358.5	7.7
Other consumers	441.2	488.1	10.6	397.38	441.1	11.0

Based on the output and installed capacity of power plants, the average single-rate tariff for electricity supplied by MOSENERGO over 12 months of 2006 was RUR 550.0/MWh, including the tariff rate of RUR 336.3/MWh for electricity, and tariff rate of RUR 93,692.8/MW for installed capacity per month.

Over 2006, the target single-rate tariff for electricity generation grew 13.2 percent generally in relation to the above tariff charged in comparable conditions in 2005, including growth of electricity rate of 10.2 percent and growth of installed capacity of 21.0 percent.

In 2006, the following sales arrangements were effective in the wholesale market for electricity:

- from January to September, 85 percent in the regulated segment and 15 percent in the free market segment;
- from September to December (with introduction of NOREM rules), 100 percent of installed power and 97 percent of electricity under RBA (regulated bilateral agreements) and 3 percent in DAM ("day ahead" market).

On the basis of these arrangements, MOSENERGO's estimated single-rate tariff in 2006 was RUR 545.2/MWh.

Operation in the NOREM environment affected reduction of the single-rate tariff.

Since January 1, 2006 the Company applied tariffs for sale of heat by OAO Moscow Heat Grid Company with the purpose of compensating process consumption within grids as approved by REC Moscow Resolution No. 114 dated December 30, 2005 and MREC Executive Board Protocol No. 37 dated December 27, 2005. In the territory of Moscow this tariff was RUR 277.65/Gcal, in the territory of the Moscow Region – RUR 256.82/Gcal. The average tariff for sale of heat losses over 2006 was RUR 276.83/Gcal.

Since January 1, 2006 end consumers located in the territory of Moscow are charged on the basis of tariffs approved by REC Moscow Resolution No. 86 dated December 12, 2005, while those located in the territory of the Moscow Region on the basis of charges approved by MREC Protocol No. 37 dated December 27, 2005.

The average tariff for supply of heat to end consumers over 12 months was RUR 458.69/Gcal, including RUR 459.02/Gcal in Moscow and RUR 451.26/Gcal in the Moscow Region.

**Decoding of Receivables, line 230**

RUR'000

Item No.	Name	Amount as of 31.12.2005	Amount as of 31.12.2006
1.	Buyers, customers	10,054	171
2.	Bills receivable	0	0
3.	Advances issued	0	0
4.	Other debtors (other accounts receivable also include the amount of installment issued to MOSENERGO's employees for purchase of housing, to be repaid in more than 12 months after the reporting date)	62,854	70,830
	<b>Total</b>	<b>72,908</b>	<b>71,001</b>

**Decoding of Receivables, line 240**

RUR'000

Item No.	Name	Amount as of 31.12.2005	Amount as of 31.12.2006
1.	Buyers, customers	3,929,555	2,296,418
2.	Bills to receive	0	0
3.	Advances issued	474,685	6,463,333
4.	Other debtors	1,852,871	872,661
	<b>Total</b>	<b>6,257,111</b>	<b>9,632,412</b>

The amount of receivables shown in the balance sheet also included the accrued bad debt provisions.

As of December 31, 2006, the debt for supply of power and heat was RUR 1,428,008 thousand, debt for supply of goods and services was RUR 868,410 thousand, out of total trade receivables worth was RUR 2,296,418 thousand.

The flow of bad debt provisions over the reporting period is shown in the table below:

**Flow of bad debt provisions**

RUR'000

Balance of bad debt provisions as of January 1, 2006	1,427,133
Bad debt provisions accrued in 2006	1,149,489
Written off to bad debt provisions in 2006	165,548
Balance of unused bad debt provisions applied to profit in the end of 2006	1,300,857
Balance of bad debt provisions as of January 1, 2007	1,110,217

**Comparative indicators of receivables**

RUR'000

	2006	2005	Growth (+), Reduction (-)
<b>Total receivables:</b>			
Line 230	71,001	72,908	-1,907
Line 240	9,632,412	6,257,111	3,375,301
<b>TOTAL</b>	<b>9,703,413</b>	<b>6,330,019</b>	<b>3,373,394</b>
Including:			
Trade receivables			
Line 231	171	10,054	-9,883
Line 241	2,296,418	3,929,555	-1,633,137
<b>TOTAL</b>	<b>2,296,589</b>	<b>3,939,609</b>	<b>-1,643,020</b>
<b>Advances issued</b>	<b>6,463,333</b>	<b>474,685</b>	<b>5,988,648</b>
<b>Other debtors</b>	<b>943,491</b>	<b>1,915,725</b>	<b>-972,234</b>

As compared to 2005, accounts receivable generally grew RUR 3,373,394 thousand or 53.29 percent, with trade receivables reducing by RUR 1,643,020 thousand or 41.71 percent. As of December 31, 2006, debt for supplied electricity and heat was RUR 1,428,179 thousand showing a reduction of RUR 1,987,547 thousand as compared to the beginning of the reporting period.

Other accounts receivable fell RUR 972,234 thousand or 50.75 percent, advances grew RUR 5,988,648 thousand or 1,361.6 percent. Generally, advances grew on contracts entered for construction of facilities at TEP-21, TEP-26 and TEP-27.

#### Deferred expenses

The Company's deferred expenses as of December 31, 2006 were RUR 168,359 thousand, including:

• deferred vacation	RUR 9,732 thousand
• insurance costs	RUR 56,711 thousand
• software user rights	RUR 71,387 thousand
• staff training	RUR 9,102 thousand
• licenses	RUR 2,622 thousand
• subscription costs	RUR 1,384 thousand
• design document development costs	RUR 2,581 thousand
• other	RUR 14,840 thousand

Insurance costs and software user right costs are to be written off at dates provided for in the relevant agreements.

#### 6. Other long-term liabilities

(line 520 of the Balance Sheet)

Long-term liabilities of MOSENERGO include long-term loans, other long-term liabilities to be repaid after January 1, 2008, and also deferred tax liabilities.

Long-term accounts payable of MOSENERGO include accounts payable for MOSENERGO's bills sold by OAO Mezhtopenergobank amounting to RUR 190,247 thousand. Payment for the realized bills is to be made on demand but not before 2008-2010.

#### Loans and credit

(lines 510 and 610 of the Balance Sheet)

In 2006, loans and credit included into the value of investment assets were RUR 591,491 thousand.

As of December 31, 2006 loans and credit including any accrued interest were RUR 21,152,995 thousand.

In March of 2006, MOSENERGO offered series 02 non-convertible commercial interest bearing bonds payable to the bearer, to be repaid on the 3640th day from the date of the bond issue placement.

A total of 5 million bonds totaling RUR 5 million were offered, with coupon interest of 7.65 percent per annum.

Series 02 bonds were included into the prime level "A" quotation list of ZAO MICEX stock exchange.

In September of 2006, MOSENERGO offered series 01 non-convertible commercial interest bearing bonds payable to the bearer, to be repaid on the 1820th day from the date of the bond issue placement.

A total of 5 million bonds totaling RUR 5 million were offered, with coupon interest of 7.54 percent per annum.

Long-term bank loans grew RUR 9,990,057 thousand over the year, with short-term bank loans growing RUR 22,997,445 thousand, including through reclassification of long-term loans to the amount of RUR 664,191 thousand; in 2006, short-term loans totaling RUR 31,218,410 were repaid. In the reporting period, short-term borrowings fell RUR 190,750 thousand. Moreover, the Company met its repayment liabilities on loans and credits, and paid interest on borrowings at due dates and in full extent.

The information on the flow of borrowings and their collateral is shown in Annex No. 1 to the Explanatory Note.

**7. Short-Term Payables**  
(line 620 of the Balance Sheet)

As part of short-term payables the Company showed settlements with suppliers and contractors, debt on the remuneration of labor, debt to the public extrabudgetary fund, debt to the budget etc.

As compared to 2005, short-term payables grew RUR 1,919,430 thousand or 37.52 percent, with payables to repair entities growing RUR 16,401 thousand or 4.78 percent, and payables to other suppliers growing RUR 599,417 thousand or 70.9 percent. Payables to construction entities grew RUR 1,174,959 thousand or 144.64 percent. Debt to the budget is of a current nature.

Short-term payables: including:	7,035,210
Suppliers and contractors: (line 621 of the balance sheet)	4,567,546
Of which:	
fuel suppliers, including:	602,764
OOO Mezhrefiongaz	465,302
OAO Gazpromrefiongaz	35,359
overhaul, including:	359,822
OOO Energoremstroy-1	23,017
Spetsstroydesign	15,475
OAO GK Strimenergo	9,074
ZAO Mosenergoremont Service	17,593
capital construction, including:	1,987,317
OOO INTREK firm	143,255
ZAO URalenergogaz	143,952
OOO Energoremstroy-1	55,876
OAO IC Energy Assets	105,104
provision of services, including:	1,444,867
GUP Mosinzhproekt	17,700
OAO MOEK	21,509
OOO Belenergomash	21,357
GK OAO Strimenergo	25,203
Debt on remuneration of labor (line 622 of the balance sheet)	215,424
Debt to public extrabudgetary funds (line 623 of the balance sheet), of which:	86,327
Pension Fund of the Russian Federation	58,898
Mandatory health insurance fund	8,599
Social insurance fund	3,744
Debt on taxes and duties to be paid to the budget (line 624 of the balance sheet), of which:	725,210
Federal budget	328,493
budget of constituent territories of the Russian Federation	388,702
local budget	8,015
Other creditors, total (line 625 of the balance sheet), of which:	1,440,703
VAT on unpaid products	273,862
<b>Grand total</b>	<b>7,035,210</b>

### Deferred income

(line 640 of the Balance Sheet)

As part of deferred income, the Company showed RUR 523,461 thousand of special purpose financing received from the Government of Moscow as of December 31, 2006 and December 31, 2005. The funds were provided on a non-reimbursable basis for construction of specific facilities.

### 8. Surplus capital

(line 420 of the Balance Sheet)

The surplus capital was formed by an increase in value of fixed assets as determined by revaluation, replenishment of own current capital, and transfer of the accumulation fund used on commissioned fixed assets to the surplus capital.

The surplus capital decreased by the amount of revaluation of retired fixed assets as applied to retained profit of previous years in the amount of RUR 19,871 thousand.

### 9. Company Shares

As of December 31, 2006, the authorized capital of the Company is fully paid up and totals RUR 28,249,359,700:

	Total number, pieces	Par value, RUR	Par value of shares held by the Company, RUR
Ordinary shares	28,249,359,700	28,249,359,700	0
Preferred shares	N/A	-	-
<b>Total</b>	<b>28,249,359,700</b>	<b>28,249,359,700</b>	<b>0</b>

In 2006, MOSENERGO neither initiated additional offerings nor redeemed its shares.

Workers of the Company are holding 599,278.5 thousand ordinary shares (975,770.6 thousand shares in 2005), while subsidiaries and affiliated persons are holding 32.6 thousand ordinary shares (32.6 thousand shares in 2005).

In 2006, low volume of trading was typical of MOSENERGO outstanding shares, which is due to a small number of free-floating MOSENERGO shares.

The minimum and maximum quotations of the MOSENERGO share in 2006 were registered on February 15, at RUR 3.969 and on May 30, at RUR 6.298 respectively.

The structure of MOSENERGO's authorized capital is as follows, (%):

	as of 01.01.2006	as of 01.01.2007
RAO UES OF RUSSIA	50.9	50.9
OAO Moscow Integrated Energy Company	2.95	2.95
Russian companies	39.5	40.16
Foreign companies	1.61	1.16
Individuals	5.04	4.83

Extraordinary General Meeting of MOSENERGO Shareholders held on December 20, 2006 (Minutes No. 2 dated December 20, 2006) resolved to increase the MOSENERGO charter capital through private offering of additional ordinary registered uncertificated shares MOSENERGO in the number of eleven billion five hundred million shares (11,500,000,000) in favor of OAO Gazprom and/or its affiliated persons. The raised funds are intended to cover the implementation of MOSENERGO's investment program on designing, construction and introduction of energy facilities.

The additional emission and prospectus were registered under state registration number 1-01-00085-A-004D with the Federal Service for Financial Markets of Russia.

The additional ordinary shares of MOSENERGO were offered at a price of RUR 5 (five) 28 (twenty eight) kopeks in compliance with the offering price procedure approved at the General Meeting of shareholders on December 20, 2006 (Minutes No. 2 dated December 20, 2006).

## 10. Government Assistance

In the accounting year the Company received budget funds – agricultural subsidy – to the amount of RUR 21,435 thousand.

## 11. Key Subsidiaries and Affiliated Companies

### Subsidiaries

No	Subsidiary	Interest in the charter capital, %	Location	Core business
1.	Energoinvest-ME, a closed joint-stock company	90.0	29-33 Valovaya ul. A, Moscow, 113054.	Brokerage services
2.	Energoconsult, a closed joint-stock company	100.0	1 Montazhnaya ul., Moscow, 107497	Consulting services, project activity, engineering services
3.	EPA Energy and Industrial Enterprise, a limited liability company	99.92	5 Golyanovskaya ul., bld. 9, Moscow, 105095	Travel, dental care
4.	AOZT Mosenergo-Finans B.V	100.0	45 AIRT VAN NESSART, 3012 CA ROTTERDAM, the Netherlands	Financial transactions

The Company holds ordinary shares issued by its subsidiaries. No changes in the composition of subsidiaries took place in 2006.

### Affiliated Companies

No	Subsidiary	Interest in the charter capital, %	Location	Core business
1.	Seba-Energo, a limited liability company	44.0	29, 2nd Kozhukhovskiy pr-d, Moscow, 109432,	Instrument development
2.	Transport and Investment Bank, Commercial Bank (a limited liability company)	24.61	18 Sadovo-Spasskaya ul., bld.1, Moscow, 107078	Banking
3.	Ergomaks Production Firm, a limited liability company	24.27	1 Ostapovskiy pr-d, Moscow, 109316	Construction and repairs
4.	Shatura Peat Digging Industrial Association, an open joint-stock company	33.99	2 Chernozersky pr-d., Shatura, Moscow Oblast, 140700	Peat digging

The Company is holding ordinary shares issued by its affiliated companies. In 2006, Company's interest in charter capitals of affiliated companies changed due to investments in OOO Teploset-Service.



## 12. Revenues and Expenditures from Ordinary Types of Activity

Revenues and expenditures in the accounting year are recognized separately for ordinary types of activity in the Profit and Loss Report, and for sundry revenue and expenditure with decoding by type and value as well as year-on-year.

In the accounting year, the revenues from shipping dropped by 1.05% year-on-year to RUR 70,267,375 thousand.

	RUR'000			
	2006	2005	Deviation	
			Abs.	%
<b>Total revenues (item 010, form No.2)</b>	70,267,375	71,010,108	- 742,733	1.05
Including sales of:				
electricity to internal consumers taking into account electricity (electrical power) through the NOREM	30,770,918	39,398,951	- 8,628,033	21.9
heat energy	31,684,329	27,539,121	4,145,208	15.05
Other goods (works, services )	7,812,128	4,072,036	3,740,092	91.85
including:				
realization of electricity	3,158,001	894,917	2,263,084	252.88
lease services	1,067,768	686,070	381,698	55.64
project works	532,963	301,376	231,587	76.84
makeup	439,378	329,690	109,688	33.27

In 2006, finished product supply (excluding VAT) totaled RUR 70,267,375 thousand, electricity and heat supply totaled RUR thousand 62,455,247. Revenues from sales of electricity and heat energy reduced by 6.7% year-on-year or dropped by 4,482,825 RUR thousand. It was the industry reform that was mainly responsible for reduction of finished products. Revenues and expenditures of the Company in Q1 2005 were recognized on the basis of the tariffs approved and actual power balance of the energy company as a whole.

Cost of finished products in 2006 totaled RUR 65,210,940 thousand, energy production costs totaled RUR 62,455,247 thousand. The actual cost of 1 kWh of supplied electricity totaled kopek 46.83/kWh. Actual cost of production of 1 Gcal of heat energy totaled RUR 454.82/Gcal.

### MOSENERGO Energy Production Profitability

	2006	2005
Energy production profitability	4.73%	12.21%
Electricity production profitability	12.16%	18.96%
Heat energy production profitability	-1.6%	3.78%

In 2006, revenues from sales of finished products totaled RUR 4,983,573 thousand, profit from sales of electrical and heat energy totaled RUR 2,820,173 thousand:

- profit from sales of electrical power – RUR 3,335,876 thousand;
- loss from sales of heat energy totaled RUR 515,702 thousand.

Net profit in 2006 totaled RUR 1,523,725 thousand.

The generated profit will be sufficient to build up the required reserve for distribution of the scheduled volume of dividends on the basis of the Company's 2006 year-end performance.

Electricity supply tariffs in 2006 allowed MOSENERGO to stay self-financed, as well as reach 7.63% of total profitability, 12.16 % of electrical power profitability, and -1.6% of profitability from sales of heat energy.

### 13. Sundry revenues and expenditures

Sundry revenues and expenditures are comprised of the following groups:

	RUR'000	
	2005	2006
<b>Sundry Revenues</b>	2,983,256	2,329,224
including:		
from realization of fixed assets (net of apartments)	1,287,627	2,844
including under the agreement on compensation for losses	1,031,946	0
balance of unused amount on bad debts	731,940	1,300,857
from sales of securities	244,835	292
from sales of sundry assets	165,647	479,910
from realization of MPZ	158,992	138,061
finances, penalties and surcharges, recognized or bound to be collected by court's decision	108,512	3,328
profit of previous years	71,605	218,502
exchange rate differences	55,071	122,952
insurance compensation	25,489	2,632
accounts payable over three years	1,771	2,554
from sales of apartments	1,141	1,113
other	130,626	56,179

RUR'000

	2005	2006
<b>Sundry Expenditures</b>	5,459,621	3,822,561
including:		
provision for bad debts	1,475,128	1,149,489
bank services	670,751	147,783
VAT at the cost of profit	321,638	277,976
finances, penalties and surcharges, recognized or bound to be collected by court's decision	311,614	114,384
from sales of securities	235,094	291
from realization of fixed assets (net of apartments)	185,793	1,205
including under the agreement on compensation for losses	21,728	0
losses of previous years	178,828	347,536
from realization of MPZ	152,111	135,911
consulting services	147,988	81,266
lump-sum bonus payment	129,918	22,500
restructuring costs	128,276	0
exchange rate differences	114,013	23,057
compensatory payments to workers	108,297	51,472
pecuniary aid	102,428	92,186
sponsored assistance	93,424	65,169
costs of all-expenses-paid trip and medical treatment	77,763	84,953
no income retirement of assets	66,157	20,032
maintenance of social-related facilities which generate no income at the cost of profit	63,942	52,921
maintenance of NEI MOSENERGO College	59,701	70,535
from sales of sundry assets	55,114	506,512
payments for the right to use of land	51,870	51,743
costs of environment protection measures	45,360	0
maintenance of NME MOSENERGO Medsanchast	27,923	113,095
contributions to Private Pension Fund (PPF)	25,001	0
costs of the energy efficiency program at Moscow Region	25,000	2,000
accounts receivable recovery services	24,816	15,280
contributions to the trade union committee 0.3%	19,039	16,087
costs of training of students	17,866	9,942
benefit payable at retirement	16,325	9,637
costs of cultural-enlightenment events	16,246	16,906
accounts receivable more than three years old	15,871	3,565
bonuses paid on the occasion of anniversaries	14,686	13,355
costs of maintenance of non-core fixed assets operated by selected companies	14,104	10,373
depreciation of non-production fixed assets	10,993	1,562
payments for emissions above the allowable level	8,736	6,767
production-related legal costs	7,696	14,326
costs of seminars, meetings	5,160	4,506
contributions to extrabudgetary funds	4,026	17,850
penalties imposed by administrative inspection	1,455	225
maintenance of NEI CPK MOSENERGO	1,411	0
payment for additional leaves	1,393	1,053
from sales of apartments	97	1,113
other	426,569	267,998

In 2006, sundry revenues reduced by a total of RUR 654,032 thousand for the items as follows: from realization of fixed assets – by RUR 1,284,783 thousand, including agreements on compensation for losses – by RUR 1,031,946 thousand; from sales of securities – by RUR 244,543 thousand; from realization of MPZ – by RUR 20,931 thousand, fines, penalties – RUR 105,184 thousand. Sundry revenues increased

for the items as follows: exchange rate differences – by RUR 67,881 thousand, profit of previous years – by RUR 146,897 thousand, profit from sales of sundry assets – by RUR 314,263 thousand; sundry revenues in the item on the recovered unused balance of the provision for bad debts – by RUR 533,923 thousand.

In 2006, sundry expenditures reduced year-on-year by 1,637,060 RUR thousand for the items as follows:

- realization of fixed assets to the amount of RUR 184,588 thousand;
- sales of securities to the amount of RUR 234,803 thousand;
- provision for bad debts to the amount of RUR 325,639 thousand;
- bank services to the amount of RUR 522,968 thousand;
- fines, penalties and surcharges, recognized or bound to be collected by court's decision to the amount of RUR 197,230 thousand;
- exchange rate differences to the amount of RUR 90,956 thousand;
- sponsored assistance to the amount of RUR 28,255 thousand;
- VAT at the cost of profit to the amount of RUR 43,662 thousand;
- costs of environment protection measures to the amount of RUR 45,360 thousand;
- lump-sum bonus payment to the amount of RUR 107,418 thousand;
- financial aid to the amount of RUR 10,242 thousand;
- costs of the energy efficiency program in the Moscow Region to the amount of RUR 23,000 thousand;
- restructuring costs to the amount of RUR 128,276 thousand;
- consulting services to the amount of RUR 66,722 thousand;
- works completed at the cost of profit to the amount of RUR 77,562 thousand;
- compensatory payments to workers to the amount of RUR 56,825 thousand;
- maintenance of social-related facilities to the amount of RUR 11,021 thousand.

Sundry expenditures increased for the following items:

- sales of sundry assets – RUR 415,398 thousand;
- losses in previous years – RUR 168,708 thousand;
- maintenance of NEI MOSENERGO College – RUR 10,834 thousand;
- maintenance of NME MOSENERGO Medsanchast – RUR 85,172 thousand;
- contributions to extrabudgetary funds – RUR 13,824 thousand.

#### 14. Taxes

Pursuant to the rules of Accounting Provisions 18/02 "Accounting for Profit Tax Settlements" and as a result of application of different rules of accounting of revenues and expenditures in the accounting and as a result of application of different rules of recognition of revenues and expenditures in bookkeeping and fiscal accounting, a gap has been developed between accounting profit and taxable profit which is reflected in the balance sheet and the profit and loss report.

Contingent expenditures on profit tax totaled RUR 718,216 thousand in 2006.

Permanent differences derived from revenues and expenditures which are not recognized for tax purposes pursuant to the rules specified in Chapter 25 of the Tax Code of the Russian Federation, both in the accounting period and subsequent periods. Permanent tax liability for 2006 totaled RUR 750,627 thousand.

Temporary differences derived from the use of different methods of recognition of revenues and expenditures in bookkeeping and fiscal accounting in time.

1. Deferred tax liability (DTL) has derived from different methods of accounting: build-up of the provision for bad debts, fixed assets depreciation, software products, expenses on special clothing, work in progress.

DTL balance at the beginning of 2006 totaled RUR 331,976 thousand, including:

- |                                |                       |
|--------------------------------|-----------------------|
| • fixed assets depreciation    | RUR 321,490 thousand; |
| • software products            | RUR 9,270 thousand;   |
| • expenses on special clothing | RUR 2,086 thousand;   |
| • work in progress             | RUR -870 thousand.    |

In 2006, DTL increased by RUR 246,379 thousand, and at year-end 2006 DTL balance totaled RUR 578,355 thousand, including:

- |                                |                       |
|--------------------------------|-----------------------|
| • fixed assets depreciation    | RUR 481,505 thousand; |
| • software products            | RUR 2,551 thousand;   |
| • expenses on special clothing | RUR 2,354 thousand;   |
| • work in progress             | RUR 2,935 thousand;   |
| • provision for bad debts      | RUR 89,010 thousand.  |

2. Deferred tax asset (DTA) has derived from different methods of accounting; gratuitously obtained property and losses from realization of depreciated property.

DTA balance at the beginning of 2006 totaled RUR 339 thousand, including:

- |   |                   |
|---|-------------------|
| • gratuitously obtained property                  | RUR 153 thousand; |
| • losses from realization of depreciated property | RUR 186 thousand. |

In 2006, DTA was redeemed by RUR 78 thousand.

DTA balance at 2006 year-end totaled RUR 261 thousand, including:

- |   |                   |
|---|-------------------|
| • gratuitously obtained property                  | RUR 123 thousand; |
| • losses from realization of depreciated property | RUR 138 thousand. |

Upon adjustment made to the contingent expenditures on profit tax in 2006 for current profit tax, deferred tax liabilities and deferred tax assets, current profit tax of MOSENERGO totaled RUR 1,222,386 thousand.

Under the tax legislation, MOSENERGO effects centralized tax assessment and payments for its units, as follows:

- profit tax;
- property tax;
- value added tax.

Documents that justify calculations of assessed taxes, which are paid on centralized basis, are executed by the tax sector of the accounting office of the General Directorate on the basis of the data submitted by MOSENERGO branches and the accounting office of the General Directorate.

Budget settlements with regard to such taxes as personal income tax, unified social tax, water charge, land tax and other local taxes, are made by the branches at the site of registration.

Basic tax liabilities of MOSENERGO in the accounting period are characterized as follows:

RUR'000

Payment	Balance as of 01.01.2006		Accrued	Paid	Balance as of 31.12.2006	
	Debit	Credit			Debit	Credit
Profit tax	1,175,267	9,495	1,122,459	-134,441	55,800	146,928
VAT	5,016	560,568	1,759,637	2,084,170	5,271	236,289
Property tax	74,231	192,090	646,530	591,911	2,005	174,483
Sundry taxes	305,045	82,000	1,499,745	1,178,521	69,330	167,510
<b>Total</b>	<b>1,559,559</b>	<b>844,153</b>	<b>5,028,371</b>	<b>3,720,161</b>	<b>132,406</b>	<b>725,210</b>

The foregoing liability is current, MOSENERGO has no budget arrears.

In 2006, upon application of MOSENERGO tax authorities rebated taxes to the amount of:

- RUR 69,000 thousand of property tax rebate;
- RUR 750,150 thousand of profit tax rebate;
- RUR 178,650 thousand of VAT rebate.

Based on the results of the second field tax audit of MOSENERGO for 2001, the Moscow Branch of the Federal Tax Service issued Resolution No.16/5 dated May 26, 2005 on additional tax assessments to a total of RUR 151,699,584.97 and RUR 79,779,727 of fines charged. MOSENERGO disputed this Resolution in court. The amount of RUR 34,780,338 was pronounced (not subject to levying) in favor of MOSENERGO.

On March 13, 2007, the Court of Arbitration of Moscow finished its hearing of case No. A40-79477/06-117-511 (initiated by MOSENERGO due disagreements on the Resolution of the Interregional Inspection of the Federal Tax Service of the Russian Federation on KN No. 4 based on results of field tax audits conducted in 2002, 2003; the amount of disputed additional tax assessments totaled RUR 1,251,439 thousand). The Court held invalid additional tax assessments to the amount of RUR 55.0 million, and acknowledged additional tax assessments to the amount of RUR 1,197.0 million, including additional profit tax assessments to the amount of RUR 1,178.0 million (of which RUR 576.0 million failed to be recognized in books as of December 31, 2006), additional VAT tax assessments to the amount of RUR 19.0 million.

The management of the Company intends to appeal the decision issued by the Court of Appeal, and any negative for MOSENERGO resolution of this issue is very unlikely.

### 15. Profit Per Share

The requirement for disclosure of information on profit (loss) per share by joint-stock companies is provided for by Accounting Provision 4/99 "Corporate Financial Reporting" and Methodological Recommendations on Disclosure of Profit Per Share approved by Order No. 29n issued on March 21, 2000 by the Ministry of Finance of the Russian Federation.

Basic profit per share reflects a share of profit in the accounting period which can potentially be distributed among holders of ordinary shares. It was determined as a ratio of basic profit in the accounting year to the average weighted number of outstanding ordinary shares in the accounting year. Basic profit equals to net profit in the accounting year (line 190, profit and loss report), net of dividends on cumulative preferred shares.

Since MOSENERGO offered no preferred shares, the base profit is equal to the net profit in the accounting year.

Net profit per share reflects a share of profit in the accounting period which may be potentially distributed among the holders of ordinary shares. It is determined as the ratio of the net profit in the accounting year and the average weighted number of outstanding shares in the accounting year.

	2005	2006
Net profit in the accounting year, RUR'000	2,081,926	1,523,725
Average weighted number of outstanding ordinary shares in the accounting year, thousand	28,249,360	28,249,360
<b>Net profit per share, RUR</b>	<b>0.0737</b>	<b>0.0539</b>

The Company has no convertible securities or agreements specified in paragraph 9 of the Methodological Recommendations on Profit Per Share Disclosure approved by Ordinance No. 29 issued on March 21, 2000 by the Ministry of Finance of the Russian Federation.

In 2006, MOSENERGO continued to pursue a policy of transparency and adherence to its commitments to the shareholders and investors.

A meeting of shareholders resolved distribution of dividends on MOSENERGO ordinary registered shares for 2005 to the amount of RUR 0.016 per share (0.0221 RUR per share in 2004). It was decided to pay dividends within 60 days from the date on which a decision on dividend distribution was made.

Dividends for the year of 2005 were accrued and paid as resolved at the meeting of shareholders. Dividends to shareholders other than Company's workers and to legal entities were paid by ZAO Spatsializirovanny Registrator Reestr-Service. Dividends to shareholders – employees of the Company, RAO UES of Russia and ADR shareholders were paid by MOSENERGO. Shareholders received dividends within a period of two months as set by the meeting, dividends to RAO UES of Russia were paid in full by December 2006 by stages as agreed upon by both parties.

The Company follows MOSENERGO provisions on internal control and insider information on MOSENERGO with a view to protecting the rights and vested interests of shareholders and persons who conduct transactions with MOSENERGO securities, providing economic security of the Company and control over its financial and economic activity by the management bodies of the Company and in compliance with stock exchange requirements to the issuers whose shares are in the listings.

## 16. Affiliated Persons

A requirement for disclosure of information on affiliated persons by organizations is provided for by Accounting Provisions 4/99 'Corporate Accounting Reports'. Contents of the information on affiliated persons subject to such disclosure in the annual accounting reports of joint-stock companies, are specified in Accounting Provisions 11/2000 'Information on Affiliated Persons'.

The Company is controlled by the UES Russian Joint-Stock Company of Energy and Electrification, the Russian Energy and Electrification, whose interest accounts for 50.9% of

ordinary shares of the Company. The remaining 49.1% of ordinary shares are distributed among a great number of shareholders. RAO UES of Russia is the parent organization of the Group of Interconnected Organizations, including the Company, 52.68% of shares of which are held by the Federal Agency for Federal Property Management.

As of December 31, 2006, affiliated persons of the Company are Members of the Board of Directors and Members of the Executive Board described in 'General Information' herein, as well as the following legal entities:

Affiliated Person	Grounds for affiliation
RAO UES of Russia	Parent Company
Subsidiaries of and companies affiliated with RAO UES of Russia	companies owned by the Group of persons who own MOSENERGO
AOZT Mosenergo-Finans B.V.	A subsidiary of MOSENERGO
Energoinvest-ME, a closed joint-stock company	A subsidiary of MOSENERGO
Energiconsult, a closed joint-stock company	A subsidiary of MOSENERGO
Transport and Investment Bank, Commercial Bank (a limited liability company)	A company affiliated with MOSENERGO
Seba-Energo Russian-German Joint Venture, a limited liability company	A company affiliated with MOSENERGO
EPA Energy and Industrial Enterprise, a limited liability company	A subsidiary of MOSENERGO
Ergomaks Production Firm, a limited liability company	A company affiliated with MOSENERGO
Shatura Peat Digging Industrial Association, an open joint-stock company	A company affiliated with MOSENERGO

OAO Gazprom and its subsidiaries are affiliated persons of the Company as follows from the data of OAO Gazprom financial (accounting) statements.

**Sales of Products to Affiliated Persons** (to the enterprises of the RAO UES of Russia Group)

The following affiliated persons received services from the Company in the accounting year :

RUR'000

No.	Name	Types of business	2006	2005
1.	OAo Moscow Heat Distribution Company	Compensation for losses within grids, lease, other realization goods, works, services	2,494,835	1,594,388
2.	OAo Mosenergosbyt	Electricity (electrical power) through the Federal Wholesale Electricity Market (WEM), the New Wholesale Electricity (Power) Market (NOREM) (2006), lease	31,687,221	23,767,285
3.	OAo Zagorskaya PSP	Electricity (electrical power) through the WEM, NOREM (2006), lease	1,037,507	58,277
4.	OAo Udmurt Energy Distribution Company	Electricity (electrical power) in free sector	242,455	-
5.	OAo Smolenskenergosbyt	Electricity (electrical power) in free sector	156,063	-
6.	OAo Kirovenergosbyt	Electricity (electrical power) in free sector	152,271	-
7.	OAo Ulyanovskenergo	Electricity (electrical power) through the NOREM	116,410	-
8.	OAo Moscow Integrated Electricity Distribution Company	Lease, other realization	407,731	490,592
9.	OAo Belgorod Distribution Company	Electricity (electrical power) in free sector	70,337	-
10.	OAo Tula Distribution Company	Electricity (electrical power) in free sector	68,525	-
11.	OAo Bryansk Distribution Company	Electricity (electrical power) in free sector	42,879	-
12.	OAo Nurenergo	Electricity (electrical power) through the NOREM	41,888	-
13.	OAo Ingushenergo	Electricity (electrical power) through the NOREM	27,582	-
14.	OAo Daghestan Energy Distribution Company	Electricity (electrical power) through the NOREM	25,944	-
15.	OAo Kalmenergosbyt	Electricity (electrical power) through the NOREM	15,192	-
16.	OAo Sevkvkazenergo	Electricity (electrical power) through the NOREM	13,005	-
17.	OAo UES Federal Grid Company	Other realization of goods, works, services	10,608	38,436
18.	Transinvestbank Commercial Bank Limited	Lease, other realization	6,495	13,766
19.	RAO UES of Russia	Other realization	-	2,371
20.	OOO Seba-Energo	Other realization of goods, works, services	404	352
21.	OOO Lizinginvest-ME	Other realization of goods, works, services	655	-
22.	Others		17,511	9,584
	<b>Total</b>		<b>36,866,592</b>	<b>25,975,051</b>

Electricity (electrical power): MOSENERGO conducts no transaction beyond the set regulated tariffs (their upper levels), if any, as well as complies with the Wholesale Market Rules and Regulation No. 109 "On Pricing of Electric and Heat Energy in the Russian Federation" issued on February 26, 2004 by the Government of the Russian Federation.

In addition, in 2006, MOSENERGO sold electrical power in the "day-ahead market" and the "balancing market" to the amount of RUR 1,325,609 thousand. Most of these sales were effected to RAO UES of Russia intercompany buyers at prices determined through competition-based selection of price bids offered by buyers and suppliers in accordance with Resolution No. "On Rules in the Wholesale Electricity (Power) Market in Transition" issued on October 24, 2003 by the Government of the Russian Federation.

OAo Moscow Heat Distribution Company sold heat energy with a view to compensating for technological consumption in the grids at the tariffs which were approved by Resolution No. 114 issued on December 30, 2005 by the REC of Moscow and Minutes No. 37 issued on December 27, 2005 by the Board of the Moscow Region Energy Committee.

Other sales by affiliated persons were based on regular commercial terms and conditions.



**Purchases from Affiliated Persons** (the enterprises of the RAO UES of Russia Group)

The following affiliated persons provided service (including performance of works and deliveries) to the Company in the accounting year:

No.	Name	Types of business	RUR'000	
			2006	2005
1.	OAO Moscow Heat Distribution Company	Heat energy transmission services	13,402,664	6,394,677
2.	OAO UES SO-CDU	Operational dispatch management services	606,541	231,423
3.	Transinvestbank Commercial Bank Limited	Cash-settlement services, other banking services	141,519	637,102
4.	OAO Mosenergosbyt	Property lease, other purchase of goods, works, services	121,012	97,066
5.	RAO UES of Russia	Purchase of electrical power through the WEM, subscription fee (2005)	27,313	5,561,748
6.	ZAO Energoinvest-ME	Other purchase of goods, works, services	438	360
7..	OAO Shaturtorf	Other purchase of goods, works, services	7	20
8..	OOO Seba-Energo	Other purchase of goods, works, services	0	217
<b>Total</b>			<b>14,299,888</b>	<b>12,922,613</b>

Heat energy transmission services were purchased from OAO Moscow Heat Distribution Company at the tariffs approved by Resolution No. 82 issued on November 29, 2005 by the REC of Moscow and Minutes No. 37 issued on December 27, 2005 by the Board of the Moscow Region Energy Committee. Others purchases from affiliated persons were based on regular commercial terms and conditions.

**Settlements with Affiliated Persons** (enterprises of the RAO UES of Russia Group)

As of December 31, 2006, arrears of the affiliated persons to the Company are as follows:

**Accounts receivable** RUR'000

Name	Types of business	2006	2005
OA0 Moscow Heat Distribution Company	Sundry liability	402,393	7,152
OA0 Moscow Integrated Electricity Distribution Company	Sundry liability	236,711	172,667
OA0 Mosenergosbyt	Electricity (electrical power) liability	165,802	704,981
OA0 Moscow City Electricity Distribution Company	Electricity (electrical power) liability	47,887	20,446
OA0 Nurenergo	Electricity (electrical power) liability	39,566	0
OA0 UES Federal Grid Company	Electricity (electrical power) liability	30,599	1,364
OA0 Ingushenergo	Electricity (electrical power) liability	26,092	0
OA0 Daghestan Energy Distribution Company	Electricity (electrical power) liability	23,246	0
WGC-1	Electricity (electrical power) liability	17,871	6
WGC-4	Electricity (electrical power) liability	13,382	0
Transinvestbank Commercial Bank Limited	Sundry liability	13,252	43,626
OA0 UES Engineering Center	Sundry liability	12,756	0
OA0 Zagorskaya PSP	Electricity (electrical power) liability	8,173	2,010
OA0 UES SO-CDU	Lease, other debt	6,777	23
WGC-6	Electricity (electrical power) liability	6,279	1,268
OA0 LAPS-4	Electricity (electrical power) liability	2,337	25,346
OA0 LAPS-5	Electricity (electrical power) liability	1,210	21,750
ZAO Energoinvest-ME	Sundry liability	2,249	2,249
OA0 Shaturtorf	Sundry liability	1,713	1,713
OOO Seba-Energo	Sundry liability	521	556
OOO EPA	Sundry liability	153	153
AOZT Mosenergo-Finans B.V.	Sundry liability	118	118
OOO Lizinginvest-ME	Sundry liability	56	0
ZAO Energokonsalt	Sundry liability	5	5
OOO Ergomaks	Sundry liability	1	1
RAO UES of Russia	Sundry liability	0	27,313
Others		11,175	5,806
<b>Total</b>		<b>1,070,324</b>	<b>780,715</b>

As of December 31, 2006, Company's arrears to the affiliated persons are as follows:

**Accounts payable** RUR'000

Name	Types of business	2006	2005
OA0 Moscow Heat Distribution Company	Arrears for heat transmission services	957,076	138,213
Mosenergosbyt	Other services	116,508	61,126
UES Engineering Center	Other services	37,391	12,441
OA0 Moscow Integrated Electricity Distribution Company	Repair and construction works, other services	32,057	24,518
UES Energy Construction Complex	Repair and construction works	8,643	0
OA0 Energosetstroi	Repair and construction works	8,128	3,689
Other		10,304	7,580
<b>Total</b>		<b>1,170,106</b>	<b>247,566</b>

In 2006, MOSENERGO worked in cooperation with the Gazprom Group on the following:

1. Under the agreement on financial lease (leasing) of equipment No. 8482-48/939 dated August 24, 2006, ZAO Gazprombank Leasing shall supply an installed and brought into service set of GTU-TEP equipment at the city of Pavlovsky Posad, Moscow Region, to the amount of RUR 652,330 thousand. The equipment is to be delivered in 2007. As of December 31, 2006, ZAO Gazprombank Leasing paid in advance a total of RUR 110,601 thousand.

2. OOO Mezhrefiongaz supplied gas to Company's power plants under the agreement on gas supply No. K-5-32-0107/1800-27 dated April 29, 2003. The price of the delivered gas (including transportation costs) totaled RUR 33,091,902 thousand. Purchase price of gas is set by the Federal Energy Commission.

3. MOSENERGO obtained a loan from JSB Gazprombank (CJSC) to the amount of RUR 12,695,857 thousand (redeemed as of December 31, 2006).

4. The balance on deposit account with JSB Gazprombank (CJSC) as of December 31, 2006 totaled RUR 900 thousand (a total of RUR 4,200,000 and 3,300,000 thousand were credited and debited respectively to the deposit account in the accounting period).

5. The Company provided property lease services to JSB Gazprombank (CJSC) to the amount of RUR 218,278 thousand.

#### **Data on Remunerations Paid to the Board of Directors and the Executive Board**

In 2006, remunerations, allowances and compensations for costs at all management bodies total as follows:

Wages (RUR)	42,465,643
Bonuses (RUR)	55,647,573
Fees (RUR)	0
Other pecuniary payments (RUR)	4,663,312
<b>Total (RUR)</b>	<b>102,776,528</b>

The data is presented for the issuer's management bodies.

## 17. Events After the Balance Sheet Date

### Dividends

General Meeting of shareholders will approve in May 2007 the amount of annual dividend per share. The Board of Directors of the Company is to meet in April 2007 to consider the amount of a dividend for 2006 to be recommended for approval to the General Meeting of shareholders.

### Revaluation

The Board of Directors of the Company resolved, by Resolution No. 615 dated September 05, 2006 of the RAO UES of Russia, to revalue fixed assets in accordance with the Russian Accounting Standards and the International Accounting Standards as of January 1, 2007 with a view to evaluating Company's fixed assets. The revaluation will be conducted under the agency agreement with RAO UES of Russia by Ernst & Young CIS Limited, ZAO International Valuation Center, ZAO ENPI Consult engaged as the consortium's appraisers.

On March 5, 2007, the Board of Directors of the Company resolved to revalue a group of fixed assets "Plant and Equipment Used in Generation and Supply Power and Heat" and "Heat Main Grids as of January 1, 2007". The revaluation entails a substantial increase in present (replacement) value of fixed assets and their value in book records and reports. The results of the revaluation will be reflected in full in Company's accounting report for 2007.

Following is a summary of rough estimate of most significant aspects of influence of the results of the revaluation on the accounting report for 2007:

- price-to-book value is expected to increase from RUR 40,272 to 59,226 million;
- annual depreciation charges are expected to increase from RUR 2,652 to 4,536 million;
- property tax is expected to increase from RUR 846 to 1,112 million;
- deferred tax liabilities are expected to increase from RUR 118 to 266 million;
- annual net profit is expected to reduce by RUR 1,257 million.

### Additional Offering

On January 23, 2007, the Federal Service for Financial Markets of Russia registered an additional private offering and prospectus of MOSENERGO ordinary registered uncertificated shares.

The additional offering includes eleven billion five hundred million (11,500,000,000) shares.

Each security of the additional offering has a par value of RUR 1 (one).

Total value of additional private offering (at par value) is eleven billion five hundred million rubles (RUR 11,500,000,000) in favor of OAO Gazprom and/or its affiliated persons.

As of the date of MOSENERGO financial (accounting) reports for 2006, the additional offering has not been completed.

Offering price of additional MOSENERGO ordinary shares is RUR 5 (five) 28 (twenty eight) kopeks, as calculated by the formula approved at a General Meeting of MOSENERGO shareholders (Minutes No. 2 dated December 20, 2006) based on trading information on MOSENERGO shares in the period between June 19, 2006 and December 19, 2006 provided in the stock market by ZAO MICEX Stock Exchange, OAO RTS and NP RTS Stock Exchange.

Offering price for the persons with pre-emption right is also RUR 5 (five) 28 (twenty eight) kopeks.

## 18. Contingent Liabilities

As of December 31, 2006, the Company has provided guarantees to creditors of third parties, which have not become due yet, to a total of RUR 212,737 thousand, including physical bodies – RUR 212,737 thousand (RUR 8,774 thousand as of December 31, 2005). The management of the Company expect no material liabilities to arise in connection with these guarantees.

The Company is being a defendant in a series of arbitration proceedings. Nevertheless, the management of the Company believe that the results of these proceedings will have no significant effect on financial status of the Company.

The tax legislation of the Russian Federation is subject to different interpretations and constant changes. In this respect, tax authorities and the management of the Company may come to have different interpretations of this tax legislation. Consequently, tax authorities may conclude that the Company has violated this legislation in conducting its transactions.

In addition, the reported tax returns remain open for audit by tax authorities within three years. It is not possible for the time being to assess the exact value of possible tax liabilities.

Annex No. 1

**STATEMENT of Borrowed Funds Flow at MOSENERGO**

No.	Bank name	Loan currency	Agreement number	Date of obtaining the borrowing	Agreement (tranche) term	Loan amount under the agreement	Rate under the agreement, %
1.	European Bank for Reconstruction and Development	RUR '000 USD '000	w/o number dated 07.04.1998	1998	15.07.2009	30,000	9.1094
2.	International Finance Corporation	RUR '000 USD '000	w/o number dated 18.06.1998	1998	15.07.2009	20,000	9.1094
3.	European Bank for Reconstruction and Development	RUR '000 USD '000	3056-529-19/551 dated 14.08.2002	2002	28.11.2007	70,000	9.36
4.	European Bank for Reconstruction and Development	RUR '000	7374-67/7546	2006	2018	7,200,000	9.42
5.	OAD AKB EUROFINANCE-MOSNARBANK	RUR '000	KK/68.44-05 dated 30.05.2006	30.05.2005	30.05.2006	1,300,000	11.75
6.	OAD Bank Moskvyy	RUR '000	14-260/15/1308-05-KP	12.05.2005	12.06.2006	3,000,000	10.75
7.	JSB Gazprombank (CJSC)	RUR '000	141/05-P/6789-48	29.07.2005	28.07.2006	950,000	11.9
8.	JSB Gazprombank (CJSC)	RUR '000	866/V	5.09.2005	30.05.2006	2,400,000	9.5
9.	JSB Gazprombank (CJSC)	RUR '000	904-2005/7229-28	29.11.2005	26.05.2006	3,000,000	7.65
10.	Russian Commercial Bank Ltd.	RUR '000	866/A	5.09.2005	4.09.2006	600,000	10
11.	Bonded loan (series 2)	RUR '000	Minutes No. 13 dated 19.12.2005 of the meeting of the Board of Directors	2.03.2006	2016	5,000,000	7.65
12.	Bonded loan (series 1)	RUR '000	Minutes No. 13 dated 19.12.2005 of the meeting of the Board of Directors	2.03.2006	2011	5,000,000	7.54
13.	JSB Gazprombank (CJSC)	RUR '000	1613/2006/8113-27/547	13.06.2006	11.09.2006	1,000,000	7.5
14.	JSB Gazprombank (CJSC)	RUR '000	1614/2006/8114-27/548	27.06.2006	25.09.2006	1,000,000	7.5
15.	JSB Gazprombank (CJSC)	RUR '000	1615/2006/8115-27/569	29.06.2006	27.06.2006	1,000,000	7.5
16.	Srednerusskiy Bank of SBRF	RUR '000	689	3.08.2006	1.12.2006	3,000,000	7.25
17.	Srednerusskiy Bank of SBRF	RUR '000	690	10.08.2006	8.12.2006	1,000,000	7.25
18.	JSB Gazprombank (CJSC)	RUR '000	183/06-R		31.12.2007	800,000	8
19.	Srednerusskiy Bank of SBRF	RUR '000	705	11.10.2006	8.02.2007	2,000,000	7.25
20.	Srednerusskiy Bank of SBRF	RUR '000	724	27.11.2006	27.03.2007	1,000,000	7.25
21.	OAD Vneshtorgbank	RUR '000	1723	25.12.2006	25.06.2008	4,000,000	8.5
	TOTAL RUR'000						
	TOTAL foreign currency						

■ FINANCIAL STATEMENTS

	Balance as of the beginning of the year (including the interest)	Loans obtained in the reporting period	Interest accruing	Loans repaid in the reporting period	Interest paid in the reporting period	Foreign exchange difference (+/-)	Balance as of the end of the reporting period (including interest)	Loan borrowing security
	388,282		39,036	93,482	27,711	-28,391	277,734	Equipment of unit No. 6 of TEP-26
	13,490		1,429	3,373	999		10,547	
	258,854		26,024	62,322	18,474	-18,926	185,156	Equipment of unit No. 6 of TEP-26
	8,993		953	2,248	666		7,032	
	906,402		70,894	404,437	67,189	-70,316	435,354	Escrow account
	31,491		2,646	15,098	2,505		16,534	
		7,200,000	201,065		169,738		7,231,327	Equipment of unit No. 5, 7 of TEP-26
	1,300,000		28,876	1,300,000	28,876		0	
	0	2,000,000	10,897	2,000,000	10,897		0	
	951,858	3,350,000	51,322	950,000	53,180		0	
	2,403,683	2,300,000	71,575	5,750,000	75,258		0	
	3,003,768		48,750	5,300,000	52,518		0	
	600,986		40,603	600,000	41,589		0	
		5,000,000	318,615		190,750		5,127,865	without security
		5,000,000	106,396				5,106,396	without security
		1,000,000	11,875	1,000,000	11,875		0	
		1,000,000	7,568	1,000,000	7,568		0	
		1,000,000	7,157	1,000,000	7,157		0	
		3,000,000	35,753	3,000,000	35,753		0	
		1,000,000	20,658	1,000,000	20,658		0	
		4,045,857	6,081	4,045,857	6,081		0	
		2,000,000	20,777	2,000,000	20,777		0	
		1,000,000	3,863	1,000,000	3,863			
		2,787,044	2,118				2,789,162	without security
	9,813,833	41,682,901	1,129,904	30,506,098	849,912	-117,633	21,152,995	
	53,974		5,028	20,719	4,170		34,113	

Renovation of the **Domodedovo** airport will allow creation of the largest air-transport center of Eastern Europe integrating air traffic between Europe and Asia-Pacific Region.

- ① Existing airport
- ② Future construction projects

The modernization program includes: construction of new passenger terminals, a shopping mall, a hotel, development of the transport infrastructure, increase in capacity of all enterprises of the airport complex.





The passenger traffic of the **Domodedovo** airport will have come

up to

**30**

**MILLION**

people by 2020. The growing power consumption of the developing airport complex and adjacent areas will be satisfied through expansion of **MOSENERGO's TEP-26** and construction of the **4,000-MW Petrovskaya LAPS** in the Shatura District, Moscow Region.



# ADDITIONAL INFORMATION

# 10

## 10.1. Information on Material Facts

The year 2006 saw 35 material facts (in keeping with the classification of the Federal Financial Markets Service of the Russian Federation). Detailed information on all material facts is available on the Company's website<sup>1</sup>.

## 10.2. Resolutions Adopted by Meetings of Shareholders

### Annual General Meeting of Shareholders

**Date and place of the general meeting:** May 26, 2006, 3 Lenina St., Dzerzhinsky, Moscow Region.

**Type of the general meeting:** annual.

**Form of conducting the general meeting:** a meeting (the joint presence of shareholders to discuss agenda items and to adopt decisions with regard to the matters put for voting).

**The General Meeting quorum:** as directed by Article 58 (1) of the Federal Law "On Joint Stock Companies", a general meeting of shareholders is legally qualified (have a quorum) if attended by shareholders possessing in the aggregate more than half of the votes (50% +1) of the issued voting shares of the Company (14,124,679,851 votes). At the commencement of the meeting, cum ballots received two days before the date of the meeting of shareholders, the shareholding of the members registered for participation in the meeting personally or by proxy totaled 26,724,117,352 voting shares, or 94.6% of votes of the shareholders eligible to participate in the General Meeting of Shareholders. The quorum present.

The General Meeting of Shareholders of MOSENERGO, Open Joint Stock Company for Energy and Electrification, was declared legally qualified.

 <sup>1</sup> 3.3.1.

**Issues put to vote and voting results in respect of them are as follows:**

**1. On Approval of the Annual Report, Annual Financial Statements, Including the Profit and Loss Account of the Company.** The counting of votes of the voted valid ballots showed the following results:

"For" – 99.15%  
 "Against" – 0.00%  
 "Abstained" – 0.00%

**2. On Distribution of the Company's Profit (including dividends) and Loss Based on the 2005 Financial Year Results.**

The counting of votes of the voted valid ballots showed the following results:

"For" – 99.17%  
 "Against" – 0.01%  
 "Abstained" – 0.00%

**3. On Election of the Members of the Company's Board of Directors.**

This item was decided by cumulative vote. The counting of votes showed the following results:

Pyotr Nikolayevich Aksenov	7.26%
Vladimir Nikolayevich Bobin	0.00%
Alexey Feliksovich Bodunkov	6.91%
Vladislav Viktorovich Brylkov	0.00%
Sergei Alexandrovich Bushmakin	0.00%
Yevgeny Nikolayevich Bykhanov	0.00%
Dmitry Valerievich Vasiliev	0.01%
Anatoly Anatolievich Gavrilenko	7.19%
Maxim Alexandrovich Eremyev	0.00%
Ilias Shamilevich Zagretdinov	7.05%
Andrey Anatolievich Kokin	0.00%
Victor Alexeyevich Komanov	0.00%
Anatoly Yakovlevich Kopsov	7.47%
Andrey Nikolayevich Kravtsov	0.00%
Artem Vladislavovich Kuznetsov	0.00%
Yevgeny Ilyich Logovinsky	7.19%
Alexey Anatolievich Matveyev	7.20%
Alexander Alexandrovich Negomedzyanov	7.06%
Maria Nikolayevna Pichugina	7.05%
Ivan Sergeevich Poyarkov	0.00%
Sergey Yurievich Rumyantsev	0.01%
Nikolai Alexeyevich Semin	0.00%
Wolfgang Skribot	7.19%
Pavel Stepanovich Smirnov	7.06%
Alexander Ivanovich Sobol	7.19%
Polina Valentinovna Strizhenko	0.00%
Yuriy Arkadieovich Udaltsov	7.05%
Vasiliy Gennadievich Filippov	0.00%
Sergey Sergeevich Fil	7.05%
"Against" all nominees	0.00%
"Abstained" wrt all nominees	0.00%

**4. On Election of the Members of the Company's Internal Audit Commission.**

Shares owned by members of the Board of Directors of the Company, or by persons holding offices in the management bodies of the Company did not participate in the voting when electing members of the Audit Commission of the Company. The counting of votes of the voted valid ballots showed the following results:

	"For", %	"Against", %	"Abstained", %
Sergey Vyacheslavovich Vasiliev	91.10	7.99	0.01
Eugenia Evgenievna Kuzhileva	8.03	23.84	67.19
Vladimir Dmitrievich Kuznetsov	2.06	29.89	67.17
Artem Vyacheslavovich Levankov	8.02	23.84	67.18
Roman Anatolievich Mitrofanenkov	1.97	29.90	67.19
Victoria Viktorovna Popova	8.00	23.84	67.19
Olga Andreyevna Sannikova	97.08	1.95	0.02
Alexander Viktorovich Sayapin	7.99	23.84	67.19
Denis Alexandrovich Svetov	0.04	31.82	67.19
Sergey Borisovich Sidorov	91.08	8.00	0.01
Dmitry Yurievich Tushunov	89.12	9.91	0.02
Igor Ivanovich Uzgorov	91.03	8.01	0.01

**5. On Approval of the Auditor of the Company.** The counting of votes of the voted valid ballots showed the following results:

"For" – 99.17%  
 "Against" – 0.01%  
 "Abstained" – 0.01%

**6.** On the Introduction of Amendments and Addenda to the Company's Charter.

A decision on the issue is to be adopted by a three-fourths majority vote of the members holding voting shares in the Company.

The full wording of the agenda item can be found on the Company's website<sup>1</sup>.

**6.1.** The counting of votes of the voted valid ballots showed the following results:

"For" – 99.17%

"Against" – 0.00%

"Abstained" – 0.01%

**6.2.** The counting of votes of the voted valid ballots showed the following results:

"For" – 2.14%

"Against" – 43.23%

"Abstained" – 53.81%

**7.** On Payment of Remunerations and Compensations to the Members of the Company's Board of Directors.

The counting of votes of the voted valid ballots showed the following results:

"For" – 91.15%

"Against" – 0.03%

"Abstained" – 8.00%

**8.** On Payment of Remunerations and Compensations to the Members of the Company's Internal Audit Commission.

The counting of votes of the voted valid ballots showed the following results:

"For" – 99.13%

"Against" – 0.02%

"Abstained" – 0.02%

**9.** On the Introduction of Amendments and Addenda to the Procedure for Convocation and Holding of Meetings of the Company's Board of Directors.

The counting of votes of the voted valid ballots showed the following results:

"For" – 94.31%

"Against" – 0.00%

"Abstained" – 4.88%

**10.** On the Introduction of Amendments and Addenda to the Articles of the Executive Board of the Company.

The counting of votes of the voted valid ballots showed the following results:

"For" – 94.31%

"Against" – 0.01%

"Abstained" – 4.88%

## **Wordings of the Resolutions Made by the Annual General Meeting of Shareholders**

### **On Item 1:**

The annual report of the Company, the annual financial statements, the profit and loss account of the Company be approved.

### **On Item 2:**

1. The following distribution of the Company's profit (loss) based on the results of the 2005 financial year be approved, RUR thousand:

Net profit for the accounting period	2,081,926
Reserve capital	104,096
Accumulation fund	1,523,863
Dividends	453,967

Cover for losses of the past years

–

2. Dividends on the Company's ordinary shares based on the annual returns of 2005 be paid at the rate of RUR 0.01607 per ordinary share of the Company in cash within 60 days after the date when the decision to pay the same was made.

### **On Item 3:**

The following members be elected on the Company's Board of Directors:

1. Anatoly Yakovlevich Kopsov
2. Pyotr Nikolayevich Aksenov
3. Alexey Anatolievich Matveyev
4. Anatoly Anatolievich Gavrilenko
5. Yevgeny Ilyich Logovinsky
6. Wolfgang Skribot
7. Alexander Ivanovich Sobol
8. Pavel Stepanovich Smirnov
9. Alexander Alexandrovich Negomedzyanov
10. Maria Nikolayevna Pichugina
11. Yuriy Arkadievich Udaltsov
12. Ilias Shamilevich Zagretidinov
13. Sergey Sergeevich Fil

### **On Item 4:**

The following members be elected on the Audit Commission of the Company:

1. Olga Andreyevna Sannikova
2. Sergey Vyacheslavovich Vasiliev
3. Sergey Borisovich Sidorov
4. Igor Ivanovich Uzgorov
5. Dmitry Yurievich Tushunov

### **On Item 5:**

PricewaterhouseCoopers Audit, a private company, be approved as the Company auditor.

### **On Item 6:**

The Company's Charter Articles 3, 15, 20, and 26 be amended. The full wording of the resolution passed on Item 6 can be found on the Company's website.

<sup>1</sup> 3.3.4.

**On Item 7:**

1. Remunerations and compensations to the members of the Company's Board of Directors be paid based on the year-end returns in accordance with the Regulation for Payment of Remuneration and Compensations to the Members of the Board of Directors of MOSENERGO approved by the Annual General Meeting of Shareholders on June 28, 2005.

2. The Regulation on Payment of Remuneration and Compensations to the Members of MOSENERGO's Board of Directors be approved as redrafted.

**On Item 8:**

Remunerations and compensations to the members of the Audit Commission of the Company be paid based on the year-end returns in accordance with the Regulation for Payment of Remuneration and Compensations to the Members of the Audit Commission of MOSENERGO approved by the Annual General Meeting of Shareholders on May 30, 2002.

**On Item 9:**

The Procedure for Convocation and Holding of Meetings of the Company's Board of Directors, Articles 5, 6 and 9, be amended. The full wording of the resolution passed on Item 9 can be found on the Company's website<sup>1</sup>.

**On Item 10:**

The Articles of the Executive Board of the Company, Art. 6 be amended.

The full wording of the resolution passed on Item 10 can be found on the Company's website<sup>1</sup>.

**Extraordinary Meeting of Shareholders**

**Date and place of the general meeting:** The last day of acceptance of filled-in ballots – December 20, 2006. Addresses to mail the filled-in voting ballots: 8 Raushskaya Naberezhnaya, Moscow 115035, Russia, MOSENERGO; 15 Sadovnicheskaya St., Moscow 115035, ZAO Register-Service Specialized Registrar.

**Type of the general meeting:** extraordinary.

**Form of conducting the general meeting:** absentee voting.

**The General Meeting quorum:** quorum for items 1, 2, and 3 on the agenda of the general meeting of shareholders – 92.48% of votes of the shareholders eligible to participate in the General Meeting of Shareholders.

Quorum for agenda items 4 and 5 – 84.68% of votes of the persons eligible to participate in the General Meeting of Shareholders and having no interest in the conclusion of the transaction.

**Matters moved for voting and the results of voting on such matters**

**1.** On Determination of the Amount, Nominal Value, Category (Class) of the Authorized Shares of MOSENERGO and the Rights Granted by such Shares. The counting of votes of the voted valid ballots showed the following results:

"For" – 91.81%

"Against" – 8.17%

"Abstained" – 0.01%

**2.** On the Introduction of Amendments to MOSENERGO's Charter in Connection with the Increase of the Number of the Authorized Shares. The counting of votes of the voted valid ballots showed the following results:

"For" – 91.81%

"Against" – 8.17%

"Abstained" – 0.01%

**3.** On the Increase of MOSENERGO's Charter Capital by Way of Placing Additional Shares. The counting of votes of the voted valid ballots showed the following results:

"For" – 91.80%

"Against" – 8.17%

"Abstained" – 0.01%

**4.** On the Approval of Interested-party Transactions (inter-related transactions) of Placing Additional MOSENERGO Shares. The counting of votes of the voted valid ballots showed the following results:

"For" – 69.26%

"Against" – 15.40%

"Abstained" – 0.02%

**5.** On the Approval of the Partnership Agreement as an Interested-party Transaction. The counting of votes of the voted valid ballots showed the following results:

"For" – 69.27%

"Against" – 15.40%

"Abstained" – 0.01%

<sup>1</sup> 3.3.4.

**Wordings of the Resolutions Made by the Extraordinary General Meeting of Shareholders**

**On Item 1:**

1. The limit size of 11,500,000,000 (eleven billion five hundred million) authorized ordinary registered non-documentary shares of MOSENERGO with the par value of 1 (one) ruble each to the total amount of RUR 11,500,000,000 (eleven billion five hundred million) in face value be designated.

2. The ordinary registered non-documentary shares authorized by MOSENERGO for placement shall confer on their holders the rights stipulated in Article 6.2. of MOSENERGO's Charter.

**On Item 2:**

The Company's Charter be amended as follows:

In Article 4, paragraph 1 of Item 4.7. be changed to read as follows: "The Company shall authorize 11,500,000,000 (eleven billion five hundred million) ordinary registered shares with the par value of 1 (one) ruble each to the total nominal value of RUR 11,500,000,000 (eleven billion five hundred million) in addition to the outstanding stock".

**On Item 3:**

MOSENERGO's charter capital be increased by way of placing additional ordinary registered non-documentary shares of MOSENERGO (the "Shares") on the following terms:

- the number of shares to be placed: 11,500,000,000 (eleven billion five hundred million);
- share denomination: 1 (one) ruble;
- manner of placement: private offering;
- the placing price of shares (including the price of offering to pre-emptors) shall be determined by the following formula:  $P = \text{Max} \{WP; \text{RUR } 5\}$ , where:

P is the price of placing additional ordinary registered non-documentary shares of MOSENERGO;

Max is the greater of WP or RUR 5;

WP is the weighted average price determined as the quotient of the total volume of trading in MOSENERGO shares in terms of money by the total volume of trading in MOSENERGO shares in terms of the number of shares as quoted by the securities market trade institutors, ZAO MICEX Stock Exchange, OAO RTS and NP RTS Stock Exchange, over six months preceding the date of the general meeting of shareholders.

In case the results of dealings in MOSENERGO shares are denominated in U.S. dollars, they shall be converted into rubles at the rate of the RF Central Bank as of the respective trading day.

The mode of paying up the issued shares: by payment on a clearing basis in the currency of the Russian Federation.

Persons with whom the additional shares are placed: OAO Gazprom and/or other Gazprom affiliated persons (save for MOSENERGO, including in case it is recognized as a Gazprom affiliate) as of the date of state registration of the resolution concerning the issue of MOSENERGO ordinary registered non-documentary shares.

**On Item 4:**

The transaction (inter-related transactions) of placing additional MOSENERGO ordinary registered non-documentary shares with the par value of 1 (one) ruble each with OAO Gazprom and/or other Gazprom affiliated persons (save for MOSENERGO, including in case it is recognized as a Gazprom affiliate) as of the date of state registration of the resolution concerning the issue of MOSENERGO ordinary registered non-documentary shares as a transaction constituting private offering of MOSENERGO shares making up over 2.0 percent of previously taken MOSENERGO ordinary shares be approved as an interested-party transaction on the following terms:

- transactors: MOSENERGO as the issuer of the shares, OAO Gazprom and/or other Gazprom affiliated persons (save for MOSENERGO, including in case it is recognized as a Gazprom affiliate) as of the date of state registration of the resolution concerning the issue of MOSENERGO ordinary registered non-documentary shares shall acquire the shares in the course of placement thereof;
- subject of the transaction: OAO Gazprom and/or other Gazprom affiliated persons (save for MOSENERGO, including in case it is recognized as a Gazprom affiliate) as of the date of state registration of the resolution concerning the issue of MOSENERGO ordinary registered non-documentary shares shall acquire additional MOSENERGO ordinary registered non-documentary shares placed by way of private offering and making up over 2.0 percent of previously taken MOSENERGO ordinary shares;
- the transaction price (the transaction price is determined as a price of placing one share determined as:  
 $P = \text{Max} \{WP; \text{RUR } 5\}$ , where:  
 P is the price of placing additional ordinary registered non-documentary shares of MOSENERGO;  
 Max is the greater of WP or RUR 5;  
 WP is the weighted average price determined as the quotient of the total volume of trading in MOSENERGO shares in terms of money by the total volume of trading in MOSENERGO shares in terms of the number of shares as quoted by the securities market trade institutors, ZAO MICEX Stock Exchange, OAO RTS and NP RTS Stock Exchange, over six months preceding the date of the general meeting of shareholders. In case the results of dealings in MOSENERGO shares are denominated in U.S. dollars, they shall be converted into rubles at the rate of the RF Central Bank as of the respective trading day), multiplied by the number of such shares that will be acquired by OAO Gazprom and/or other Gazprom affiliated persons (save for MOSENERGO, including in case it is recognized as a Gazprom affiliate) as of the date of state registration of the resolution concerning the issue of MOSENERGO ordinary registered non-documentary shares.

Tenancy: in accordance with the resolution concerning the additional issue of MOSENERGO shares.

**On Item 5:**

MOSENERGO's interested-party transaction under the partnership agreement be approved on the following material terms and conditions:

1. Subject of the transaction: synergy in designing, construction and commissioning of Units No. 3 and No. 4 at TEP-27, MOSENERGO, Unit No. 8 at TEP-26, MOSENERGO, and Unit No. 11 at TEP-21, MOSENERGO, other facilities (by previous concert in writing of the contracting partners) (the "Facilities").
2. Contracting partners (the "Partners"):

- MOSENERGO;
- RAO UES of Russia;
- OAO Gazprom and/or its affiliates designated by Gazprom's order in writing (the "Strategic Investor").

3. The agreement price (contributions of the parties to the particular partnership):

- contribution of MOSENERGO: monetary assets in the amount of at least RUR 37,000,000,000 (thirty-seven billion) and no more than RUR 60,000,000,000 (sixty billion);
- contribution of RAO UES of Russia: monetary assets in the amount of RUR 1000 (one thousand);
- contribution of the Strategic Investor: monetary assets in the amount of RUR 1000 (one thousand).

4. Other material conditions:

- MOSENERGO shall conduct the common business and keep books of the particular partnership; however, a prior written authorization of all Partners is required for every single commitment and transaction provided for by the partnership agreement;
- MOSENERGO shall have the ownership of the Facilities being the operating result of the particular partnership;
- on termination of the agreement, RAO UES of Russia and the Strategic Investor shall have the monetary assets contributed by them as an investment under the partnership agreement reimbursed;
- the partnership agreement shall remain in full force and effect, including in case that there are only two contracting parties.

The plans for 2009 include completion of the construction of the most of the **Moscow-City** facilities with a total floor area of about **4.0** million sq. m.

- ① Moscow-City Business Center
- ② Moscow-River
- ③ Krasnopresnenskaya Riverside Avenue



Among the Moscow-City structures are office, hotel and exhibition complexes, administration buildings, a transport terminal, a water park, a marriage palace, and other. The year 2009 will see the traffic infrastructure constructed, the mini-metro and the transport terminal operating. The initially estimated number of employees and guests of the complex will reach 350–500 thousand.





The load of the **Moscow-City** and bordering areas will have amounted to over

**1,400**  
MW BY 2020.

To supply them with power, **MOSENERGO** plans retrofitting and commissioning of new capacities at its **TEP-12**, **TEP-16** and **TEP-25**.



### 10.3. Corporate Governance Code – Compliance Information

#### General Meeting of Shareholders

1. Notifying shareholders about a general shareholders meeting not less than 30 days prior to its holding irrespective of the business to be transacted unless a longer period is stipulated by law

**Observed**

Charter, Art. 11, Item 11.5

2. Granting shareholders an opportunity to familiarize themselves with the list of persons entitled to participate in the general shareholders meeting, starting with the day of notification of a general shareholders meeting to be held until the closure of a general shareholders meeting held in person, and if the general shareholders meeting is held in absentia – until the final date of ballot acceptance

**Observed**

3. Granting shareholders an opportunity to familiarize themselves with information (materials), that are to be provided to shareholders during preparation for holding of a general shareholders meeting, by means of communications equipment, including through the Internet

**Observed**

Charter, Art. 11, Item 11.7

4. The shareholders' entitlement to enter an item on the general meetings' agenda or demand the convocation of a general shareholders meeting without presenting any documents if his/her rights to shares are exercised within the register-keeping system, and if his/her rights to shares are accounted on a custody account – with the presentation of a statement of the custody account in order to exercise the aforementioned rights

**Observed**

The procedure for entering an item on the general shareholders meetings' agenda and the procedure for convocation of a general shareholders meeting are determined by the current legislation. Neither Charter nor internal documents of the Company make any provision for mandatory issuance of an extract from the share register or a statement of the custody account when placing questions on the agenda or convening a meeting

5. Existence of a requirement in a joint stock company's charter or internal documents providing for compulsory attendance of the general shareholders meetings by the general director, members of the managerial board, members of the board of directors, members of the audit commission and auditor of the joint stock company

**Observed in part**

Charter, Art. 11, Item 11.1

A general meeting of the Company shareholders may be attended by the General Director, members of the Executive Board, members of the Board of Directors, members of the Audit Commission and the auditor of the Company

6. Compulsory attendance of candidates during discussion at a general shareholders meeting of items concerning election of members of the board of directors, the general director, members of the managerial board, members of the audit commission, as well as the item of approval of the joint stock company's auditor

**Observed in part**

Charter, Art. 11, Item 11.1.

A general meeting of the Company shareholders may be attended by the General Director, members of the Executive Board, members of the Board of Directors, members of the Audit Commission and the auditor of the Company

7. Detailing in a joint stock company's internal documents the procedure for registration of participants in a general shareholders meeting

**Observed**

Procedure for Preparation and Holding of the General Meeting of MOSENERGO's Shareholders, Item 3.1, determines a procedure for registering persons eligible to participate in the general meeting of the Company shareholders

#### Board of Directors

8. Stipulating in a joint stock company's charter the authority of the board of directors to approve annually a financial and economic plan of the joint stock company

**Observed**

Charter, Art. 15, Item 22

9. Existence in a joint stock company of a board of directors-approved risk management procedure

**Observed**

MOSENERGO's Risk Management Regulation

10. Stipulating in a joint stock company's charter the authority of the board of directors to suspend the mandate of the general director appointed by the general shareholders meeting

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 12

The Director General is elected by the Board of Directors of the Company

11. Stipulating in a joint stock company's charter the authority of the board of directors to set requirements to the qualifications and amount of remuneration of the general director, members of the managerial board, principal executives of the joint stock company

**Observed in part**

Charter, Art. 15, Item 15.1, Sub-item 14

12. Stipulating in a joint stock company's charter the authority of the board of directors to approve the terms and conditions of employment contracts with the general director and members of the managerial board

**Observed in part**

Charter, Art. 15, Item 15.1, Sub-item 14

**13.** Existence of a requirement in a joint stock company's charter or internal documents stipulating that the votes of the members of the board of directors who are the general director or members of the managerial board should not be counted when approving the terms and conditions of employment contracts with the general director (managing organization, manager) and members of the managerial board

**Not observed**

Charter, Art. 15, Item 15.1, Sub-item 14

The Board of Directors of the Company approves the terms and conditions of contracts (including with regard to the term of office) with the general director of the Company, members of the Executive Board, management organization (manager), and modification of the said contracts

**14.** Presence of not less than three independent directors on the joint stock company's board of directors meeting the requirements of the Corporate Governance Code

**Observed**

There are eight independent directors on the Board of Directors

**15.** Absence among the members of the board of directors of a joint stock company of persons who were found guilty of an economic offence or offences against the state power, interests of civil service and service in local government bodies, or who were subject to administrative punishments for a business delinquency or wrong-doing in the sphere of finance, revenue, and securities market

**Observed**

**16.** Absence among the members of the board of directors of a joint stock company of persons who are shareholders, general directors (managers), members of management bodies or employees of legal entities competing with the joint stock company

**Observed**

**17.** Stipulating in a joint stock company's charter a requirement for the board of directors to be elected by cumulative voting

**Observed**

Charter, Art. 10, Item 10.8

**18.** Stipulating in a joint stock company's internal documents of a requirement for the members of the board of directors to hold back from doing anything that will or may potentially give rise to a conflict between their interests and interests of the joint stock company, and if such a conflict arises – a requirement to disclose information about the conflict to the board of directors

**Observed in part**

Article 8 of the Regulation on MOSENERGO's Information Policy stipulates the duty of the members of the Board of Directors to notify the Board of Directors in writing that a conflict between their interests and interests of the Company has arisen or may arise

**19.** Stipulating in a joint stock company's internal documents the duty of the members of the board of directors to notify the board of directors in writing of their intention to carry out transactions with securities of the joint stock company, of which they are members of the board of directors, or its subsidiaries (associated companies), and to disclose information on transactions with such securities carried out by them

**Observed**

Regulation on MOSENERGO's Information Policy, Art. 8, Item 8.2

**20.** Existence of a requirement in a joint stock company's internal documents for holding meetings of the board of directors not less frequently than once every six weeks

**Observed**

Charter, Art. 18, Item 18.2

**21.** Holding meetings of the board of directors of a joint stock company during the year of the annual report of the joint stock company not less frequently than once every six weeks

**Observed**

In 2006, the Board of Directors held 31 meetings

**22.** Stipulating in a joint stock company's internal documents procedures for holding meetings of the board of directors

**Observed**

Procedure for Convocation and Holding of Meetings of the Company's Board of Directors

**23.** Existence of a provision in a joint stock company's internal documents envisaging the board of directors' approval of the joint stock company's transactions to a sum of ten and more percent of the company's asset value, with the exception of transactions carried out in the ordinary course of business

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 26

**24.** Stipulating in a joint stock company's internal documents the right of the members of the board of directors to receive information from the executive bodies and heads of major divisions of the joint stock company that they need to properly discharge their functions, as well as penalties for failure to do so

**Observed**

Procedure for Convocation and Holding of Meetings of the Company's Board of Directors, Art. 3, Item 3.1., Sub-item 1, Item 3.2., Item 3.3

**25.** Existence of the board of directors' strategic planning committee or assignment of the committee's functions to another committee (other than the audit committee or personnel and remuneration committee)

**Not observed**

The committee has not been appointed

**26.** Existence of a committee of the board of directors (the audit committee) which recommends an auditor of the joint stock company to the board of directors and interacts with him and with the audit commission of the joint stock company

**Observed**

The Board of Directors approved the Regulation on the Audit Committee of MOSENERGO's Board of Directors, Minutes No. 18 of 04.03.2005, Item 2.1.2, Item 2.1.3, Item 8.4.4

**27.** Only independent and non-executive directors on the audit committee

**Observed**

Composition of the audit committee is approved by Minutes of the Board of Directors No. 4, dated July 24, 2006:

M.N. Pichugina (the independent director)

P.N. Aksenov (the independent director\*)

P.S. Smirnov (non-executive director\*)

A.I. Sobol (the independent director)

E.I. Logovinsky (the independent director)

**28.** An independent director at the head of the audit committee

**Observed**

Chairman of the Audit Committee – M.N. Pichugina (Minutes No. 4, dated July 24, 2006)

**29.** Stipulating in a joint stock company's internal documents the right of all members of the audit committee to access any documents and information of the joint stock company subject to non-disclosure of confidential information

**Observed**

Regulation on the Audit Committee of MOSENERGO's Board of Directors, Art. 3, Art. 10

**30.** Establishment of a committee of the board of directors (the human resources and remuneration committee) charged with definition of eligibility criteria applicable to candidates for the position of member of the board of directors and development of the joint stock company's remuneration policy

**Observed**

Regulation on the Human Resources and Remuneration Committee of MOSENERGO's Board of Directors is approved, Art. 2, Item 2.2

**31.** An independent director at the head of the human resources and remuneration committee

**Observed**

Minutes of the Board of Directors No. 30, dated June 27, 2005 – Regulation on the Human Resources and Remuneration Committee of MOSENERGO's Board of Directors was approved. Minutes of the Board of Directors No. 16, dated November 30, 2006 – the Chairman of the Human Resources and Remuneration Committee of MOSENERGO's Board of Directors was approved – Skribot W.

**32.** No officers of the joint stock company on the human resources and remuneration committee

**Observed**

See Item 31

**33.** Establishment of the board of directors' risk committee or assignment of the committee's functions to another committee (other than the audit committee or personnel and remuneration committee)

**Not observed**

The committee has not been appointed. The Risk Management Regulation of MOSENERGO is approved

**34.** Establishment of the board of directors' corporate conflict resolution committee or assignment of the committee's functions to another committee (other than the audit committee or personnel and remuneration committee)

**Not observed**

The committee has not been appointed

**35.** No officers of the joint stock company on the corporate conflict resolution committee

**Not applicable**

See Item 34

**36.** An independent director at the head of the corporate conflict resolution committee

**Not applicable**

See Item 34

**37.** Existence of board of directors-approved internal documents of the joint stock company stipulating procedures for formation and functioning of the board of directors committees

**Observed**

Regulation on the Audit Committee of MOSENERGO's Board of Directors, Art. 5

Regulation on the Human Resources and Remuneration Committee of MOSENERGO's Board of Directors, Art. 6

**38.** Existence of procedures in a joint stock company's charter for determining whether a quorum is present at a meeting of the board of directors that enables to ensure obligatory participation of independent directors in the board of directors' meetings

**Observed in part**

Charter, Art. 18, Items 18.7 through 18.13

\* in concordance with requirements of broker's boards for issuers

## Executive Bodies

**39.** Existence of a collegial executive body (managerial board) of a joint stock company

**Observed**

Charter, Art. 21, Item 21.1

**40.** Existence of a provision in a joint stock company's charter or internal documents envisaging the requirement of the managerial board's approval of any real estate transactions and borrowings by the joint stock company, provided that such transactions are not classified as major transactions, and the joint stock company does not customarily engage in such transactions in the ordinary course of its business

**Observed**

Charter, Art. 22, Item 22.2, Sub-item 10-12

**41.** Detailing in a joint stock company's internal documents the procedure for obtaining approval for operations outside the scope of the financial and business plan of the joint stock company

**Observed**

Articles of the Executive Board of MOSENERGO, Item 5.9, Sub-item 14-20 with changes entered by the General Meeting of MOSENERGO's Shareholders (Minutes No. 1, dated May 31, 2006)

**42.** Absence among the members of the executive bodies of a joint stock company of persons who are a shareholder, the general director (manager), a member of a management body or an employee of a legal entity competing with the joint stock company

**Observed**

**43.** Absence among the members of the executive bodies of a joint stock company of persons who were found guilty of an economic offence or offences against the state power, interests of civil service and service in local government bodies, or who were subject to administrative punishments for a business delinquency or wrong-doing in the sphere of finance, revenue, and securities market. Where the functions of the sole executive body are exercised by a managing organization or a manager, the general director and members of the managerial board of the managing organization or the manager should meet the eligibility criteria applicable to the general director and members of the managerial board of the joint stock company

**Observed**

**44.** Existence of a provision in a joint stock company's charter or internal documents prohibiting the managing organization (manager) from carrying out similar functions at a rival company or have any connection with the joint stock company apart from carrying out the functions of the managing organization (manager)

**Observed in part**

Charter, Art. 21, Item 21.3

The rights and obligations of a managing organization for management of the current activities of the Company are determined by the legislation of the Russian Federation and the agreement entered into between the management organization and the Company

**45.** Existence of a requirement in a joint stock company's internal documents for the members of the executive bodies to hold back from doing anything that will or may potentially give rise to a conflict between their interests and interests of the joint stock company, and if such a conflict arises – a requirement to advise the board of directors to that effect

**Observed in part**

Charter, Art. 19, Item 19.14,

Articles of the Executive Board of MOSENERGO, Art. 3, Item 3.1.3, Regulation on MOSENERGO's Information Policy, Art. 8, Item 8.1

**46.** Stipulating in a joint stock company's charter or internal documents the eligibility criteria applicable to the managing organization (manager)

**Observed in part**

See Item 44

**47.** Submission by the executive bodies of a joint stock company of monthly reports on their work to the board of directors

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 8

**48.** Stipulating in contracts concluded between a joint stock company and its general director (management organization, manager) and members of the managerial board of their responsibility for breach of provisions concerning use of confidential and insider information

**Observed**

## The Company's Secretary

**49.** Existence in a joint stock company of a special officer (the secretary of the company) whose objective is to ensure that corporate bodies and officers of the joint stock company comply with procedural requirements safeguarding the rights and legitimate interests of the company's shareholders

**Observed in part**

Charter, Art. 15, Item 15.1, Sub-item 28

Corporate secretary of the Company and an ad hoc operating unit

**50.** Detailing in a joint stock company's charter or internal documents the procedure for appointment (election) of the secretary of the company and his/her responsibilities

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 4

Procedure for Convocation and Holding of Meetings of the Company's Board of Directors, Art. 4

**51.** Stipulating in a joint stock company's charter the eligibility criteria applicable to candidates for the position of the secretary of the company

**Observed in part**

See Item 50

## Major Corporate Actions

**52.** Existence of a requirement in a joint stock company's charter or internal documents for major transactions to be approved prior to their consummation

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 26

**53.** Obligatory invitation of independent assessors to determine the market value of property involved in major transactions

**Observed**

Charter, Art. 15, Item 15.1, Sub-item 55

**54.** Stipulating in a joint stock company's charter that during acquisition of large blocks of shares of the joint stock company (takeover) the company should refrain from actions that are aimed at protecting the interests of executive bodies (members of such bodies) and members of the board of directors of the joint stock company, and which may result in weakening the position of shareholders (and in particular, pending the expiration of the acquisition period, the board of directors should refrain from issuing additional shares, convertible shares or securities that otherwise entitle their holders to purchase shares of the company, even if such issuance is authorized by the charter of the company)

**Not observed**

The Charter contains no such provisions

**55.** Stipulating in a joint stock company's charter that the board of directors must invite an independent assessor to determine the current market value of the company's shares and how it could be affected by the takeover

**Observed**

See Item 53

**56.** A joint stock company's charter should grant no relief to the entity taking over the company of the responsibility to offer to buy out shareholders' ordinary shares (issuer's securities convertible into ordinary shares)

**Observed in part**

Charter, Art. 5, Item 5.8

**57.** Stipulating in a joint stock company's charter or internal documents that an independent assessor must be invited for determination of the conversion value of shares after the reorganization

**Observed in part**

Charter, Art. 15, Item 15.1, Sub-item 55

## Disclosure of Information

**58.** Existence of a board of directors-approved internal document setting forth rules of and approaches to disclosure (Regulation on Information Policy)

**Observed**

Regulation on MOSENERGO's Information Policy

**59.** Stipulating in a joint stock company's internal documents the requirement to disclose information about the purposes of issuing new shares and the persons purchasing new shares, including those who intend to purchase a large block of shares, as well as whether senior executives of the joint stock company will purchase shares offered

**Not observed**

The relevant requirements will be observed should the Company issue its shares

**60.** Existence in a joint stock company's internal documents of a list of information, documents and materials to be furnished to the shareholders to enable them to make decisions regarding issues brought up at a general shareholders meeting

**Observed**

Regulation on MOSENERGO's Information Policy, Art. 5, Item 5.9.5

**61.** Existence of a joint stock company's website and regular disclosure of information about the joint stock company on such website

**Observed**

Regulation on MOSENERGO's Information Policy, Art. 4, Item 4.7, ([www.mosenergo.ru](http://www.mosenergo.ru))

**62.** Stipulating in a joint stock company's internal documents the requirement to disclose information about transactions between the joint stock company and its senior executives in accordance with the charter, and about transactions between the joint stock company and entities in which the company's senior executives directly or indirectly own 20 percent or more of the company's charter capital or which can be otherwise strongly influenced by such executives

**Observed**

Regulation on MOSENERGO's Information Policy, Art. 4, Item 4.1, Item 4.4.4

**63.** Stipulating in a joint stock company's internal documents the requirement to disclose information about all transactions which may substantially affect the market value of shares of the joint stock company

**Observed**

Regulation on MOSENERGO's Information Policy, Art. 4, Item 4.3 (d), Item 4.4.4, Item 4.4.5 (g, h), Items 4.4.8, 4.4.19

**64.** Existence of a board of directors-approved internal document regulating the use of significant information about a joint stock company's operations, shares and other securities of the company and transactions therewith, which is not available to the public and disclosure of which may substantially affect the market value of shares and other securities of the joint stock company

**Observed in part**

Regulation on MOSENERGO's Information Policy, Art. 7

### **Supervision of the Financial and Business Operations**

**65.** Existence of board of directors-approved procedures for internal control over financial and business operations of the joint stock company

**Observed**

The Regulation on Internal Control of MOSENERGO, approved by the Board of Directors MOSENERGO, Minutes No. 7, dated September 05, 2005

**66.** Existence of an ad hoc unit of the joint stock company that ensures compliance with the internal control procedures (control and audit service)

**Observed**

The table of organization provides for an internal audit directorate

**67.** Existence of a requirement in a joint stock company's internal documents for the structure and composition of the control and audit service of the joint stock company to be determined by the board of directors

**Not observed**

**68.** Absence among the members of the control and audit service of persons who were found guilty of an economic offence or offences against the state power, interests of civil service and service in local government bodies, or who were subject to administrative punishments for a business delinquency or wrongdoing in the sphere of finance, revenue, and securities market

**Observed**

**69.** Absence among the members of the control and audit service of persons who are members of the executive bodies of a joint stock company or persons who are shareholders, the general director (manager), members of the management bodies or employees of a legal entity competing with the joint stock company

**Observed**

**70.** Stipulating in a joint stock company's internal documents the period of time for presentation of documents and materials to the control and audit service for evaluation of the financial and business operation undertaken, as well as the responsibility of officers and employees of the joint stock company for failure to present same within such period

**Observed in part**

The Regulation on Internal Control of MOSENERGO, Art. 6.6

**71.** Existence of a requirement in a joint stock company's internal documents to the control and audit service to report the revealed violations to the audit committee, and if such committee is not available – to the board of directors of the joint stock company

**Observed**

The Regulation on Internal Control of MOSENERGO, Art. 8.3, 8.5

**72.** Stipulating in a joint stock company's charter that the advisability of carrying out operations falling outside the scope of the financial and business plan of the joint stock company (non-standard operations) should be preliminary evaluated by the control and audit service

**Not observed**

**73.** Stipulating in a joint stock company's internal documents the procedure for obtaining the board of directors' approval of a non-standard operation

**Not observed**

**74.** Existence of a board of directors-approved internal document setting forth the procedure for conducting audits of the financial and business activity of the joint stock company by the audit commission

**Not observed**

**75.** Evaluation by the audit committee of the auditor's report before it is presented to shareholders at a general shareholders meeting

**Observed**

Regulation on the Audit Committee of MOSENERGO's Board of Directors, Art. 2, Item 2.1.4

## Dividends

**76.** Existence of a board of directors-approved internal document which is followed by the board of directors in adoption of recommendations concerning the dividend rate (Regulation on Dividend Policy)

**Not observed**

**77.** Stipulating in the Regulation on Dividend Policy the procedures for determining the minimal portion of net profit of the joint stock company directed towards the payment of dividends, and circumstances under which dividends are not paid or paid only partially on preference shares with respect to which the amount of dividends is provided by the charter of the joint stock company

**Not observed**

See Item 76

**78.** Publishing of information about the dividend policy of the joint stock company and all amendments thereto in a periodic publication authorized by the company's charter to announce general shareholders meetings, as well as on the company's web-site

**Observed in part**

The Company abides by the Guidelines for Dividend Payment approved by RAO UES of Russia

## 10.4. Information about Concluded Interested-party Transactions

In 2006, MOSENERGO's Board of Directors approved 293 interested-party transactions. The interested-party transactions are listed on the Company's website<sup>1</sup>.

 <sup>1</sup> 3.2.1.

## 10.5. Glossary

### 1. Acronyms

**AWPL** – autumn and winter peak loads

**CCP** – Combined Cycle Plant

**CDU** – Closed Distribution Unit

**CRMZ** – Central Mechanical Repair Works

**DAM** – “day ahead” market

**EBRD** – European Bank for Reconstruction and Development

**EC** – efficiency coefficient

**FSFM of Russia** – Federal Service for Financial Markets

**FTS of Russia** – Federal Tariff Service

**GDP** – Gross Domestic Product

**GTU (GTE)** – Gas Turbine Unit (gas-turbine power plant)

**ICE RAS** – Institute of Computing Equipment of the Russian Academy of Science

**IVC** – Information-Computing Center

**KPI** – Key Performance Indicators

**LAPS** – Local Area Power Station (a historical name)

**LIBOR** – London Interbank Offered Rate – an average weighted interest rate on interbank credits

**MAC** – Maximum Allowable Concentration

**MAD** – Maximum Allowable Discharges

**MDU** – Main Distribution Unit

**MREC** – Moscow Region Energy Committee

**MUD** – Makeup Demineralizer

**NME** – Non-profit Medical Establishment

**NOREM** – New Wholesale Market of Electric Energy and Power

**NP ATS** – Non-profit Partnership «Administrator of Trading System» of the wholesale electricity (power) market

**NP RTS Stock Exchange** – Non-profit Partnership «Russian Trading System» Stock Exchange»

**NPF** – Non-state pension fund

**OAO** – Open Joint Stock Company

**OAO «UES SO-CDU»** – OAO System Operator – Central Dispatch Unit of the Unified Energy System of Russia

**OAO MIEC** – OAO Moscow Integrated Energy Company

**OZAP** – Experimental Plant for Automation Means and Devices

**PPTK** – Industrial-Technological Completing enterprise

**PWB** – Peak Water Boiler

**R&D** – research and development

**RBAM** – regulated bilateral agreement market

**REC** – Regional Energy Commission

**RTS** – Russian Trading System (a stock exchange)

**SAC** – Subsidiaries and Associated Companies

**TEP** – Total Energy Plant

**TG** – Turbogenerator

**VAT** – value added tax

**WEM** – Wholesale Electricity (Power) Market

**ZAO** – Closed Joint Stock Company

### 2. Measurement units

**Gcal** – Gigacalorie. A unit of calorific energy

**Gcal/h** – Gigacalorie/hour. A unit of thermal power

**kV** – kilovolt. A unit of voltage

**kVA** – kilovolt-ampere. A unit of apparent transformer power

**kWh** – kilowatt-hour. A unit of electric energy

**MW** – megawatt. A unit of electric power

**tfe** – ton of fuel equivalent



### 3. Terms

**Balancing market.** A constituent part of the WEM's discrepancy sector offering electric energy generated in excess of the planned volumes.

**Bilateral contract.** An agreement under which a supplier undertakes to supply a definite quantity of electricity of a definite quality to a buyer, and the buyer undertakes to accept and pay for such electricity under terms and conditions of the contract concluded as consistent with the rules of the wholesale market.

**Capacity, installed.** A maximum active electric power with which an electric installation is capable of running continuously without overload in accordance with the equipment certificate.

**Capacity, operating.** Available capacity of an electric power plant less equipment laid up for repair.

**"Day ahead" market.** The NOREM sector which replaced the free trade sector that existed before September 1, 2006. The DAM operation is based on the competitive selection of price bids of suppliers and buyers one day before the actual delivery of electricity determining the delivery prices and quantities at each hour of the day.

**Discrepancy sector of the WEM.** The sector trading in discrepancies between actual and planned generation (consumption) of electricity by the wholesale market players in a particular time of day at regulated tariffs and coefficients.

**Free market sector (FMS).** The competitive sector, the "5-15" sector – a system of relations at the wholesale electricity market defined by the WEM rules and based on competition among suppliers and among buyers of electric energy.

**Fuel equivalent.** Metering unit of the organic fuel used for comparing the efficiency of different types of fuel and their total metering.

**Generation.** Production of electricity and heat.

**Gigabit Ethernet.** High-speed technology of shared access of users to a data network.

**Independent director.** Defined according to the recommendations of the Corporate Behavior Code of the Federal Securities Commission.

**Load** – total electric power consumed by all electricity recipients (consumers) connected to the distribution grids of the system and the power used to cover the losses in all the chains of the electric grid (transformers, converters, electricity transmission lines).

**Regulated sector of the WEM.** The sector of electricity (power) supply to the wholesale market and consumption from the WEM at the tariffs approved by the Federal Tariff Service.

**SDH network.** Technology for high-speed optical communication networks. Allows flexible, reliable and efficient networks with a full software control to be created.

**SF6 circuit breaker.** A circuit breaker employing SF6 gas instead of air or oil insulation, which enables to increase load on current-carrying parts and to reduce their mass for the account of its cooling properties.

**Unit.** A power boiler (steam generator) represented by one or two shells and a turbine (or several turbines) rigidly connected thereto with a directly coupled electric generator (several generators according to the number of the turbines).

## 10.6. Contact Information

### **MOSENERGO Open Joint Stock Company for Energy and Electrification**

Location and postal address:  
8 Raushskaya Naberezhnaya, Moscow 115035  
Phone: (495) 957-35-30  
Fax: (495) 234-70-82  
Teletype: 113137 USPH PU  
Web address: www.mosenergo.ru

Securities Section:  
Phone: (495) 957-25-99  
Fax: (495) 951-09-64  
E-mail: ocb@mosenergo.elektra.ru

Mass Media and Authority Relations Section:  
Phone: (495) 957-22-90  
Fax: (495) 957-37-99  
E-mail: press-centre@mosenergo.ru

Details with KB Transinvestbank (OOO):  
Settlement account No. 40702810900000000068,  
Correspondent account No. 30101810500000000212,  
INN (Taxpayer ID) 7705035012, BIC 044579212,  
OKPO code 00102798,  
KPP (Industrial Enterprises Classifier) 997450001,  
Basic State Reg. No 1027700302420,  
OKVED code 40.10; 40.30

### **Registrar**

ZAO Register-Service Specialized Registrar  
Address: 15 Sadovnicheskaya St., Moscow 115035  
Phone: (495) 234-70-76, (495) 234-79-78  
E-mail: reestrervis@yandex.ru

License: No. 10-000-1-00312  
Date of issue: March 30, 2004  
Effective date: for an indefinite term  
License issuing authority: the Federal Commission  
for the Securities Market

### **Auditor**

ZAO PricewaterhouseCoopers Audit  
Address: 52 bldg 5, Kosmodamianskaya Naberezhnaya,  
Moscow, 115054  
Phone: (495) 967-6000  
Fax: (495) 967-6001

Audit license: # E000376  
Date of issue: May 20, 2002  
Effective date: until May 20, 2007  
License issuing authority: Ministry of Finance  
of the Russian Federation

## 10.7. MOSENERGO's official site map

**www.mosenergo.ru**

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### 2. Press centre

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### 3. To our shareholders and investors

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### 6. Contacts