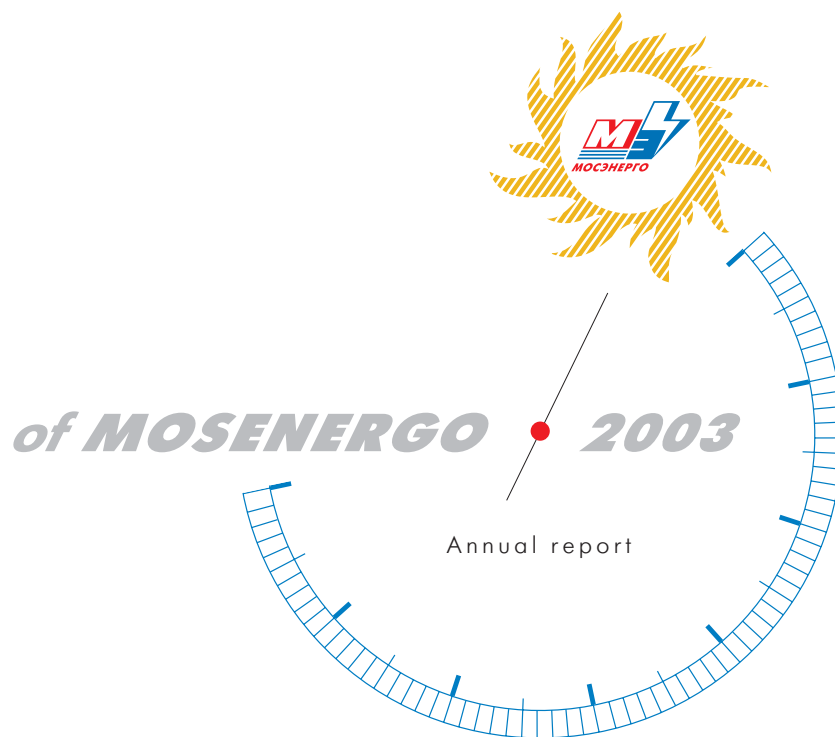


Towards light, warmth and friendly environment!

Energy



Approved by Board of Directors, April 27, 2004, minutes № 34

www.mosenergo.ru

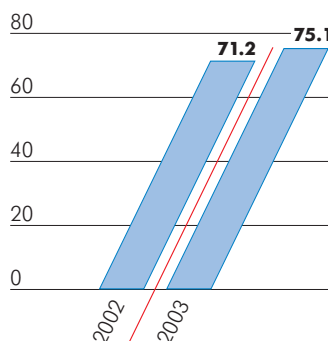
*An electronic version of the annual report can be found
in the "To Our Shareholders and Investors" section*

Mosenergo in figures

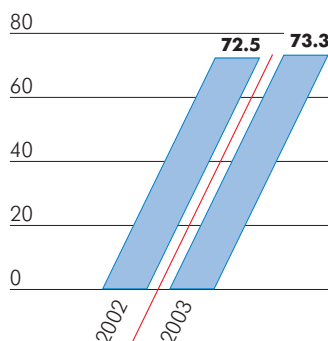
Key performance indicators	2002	2003
Installed electrical capacity, MW	14,796.8	14,778.8
Electricity generation, kWh bln	71.2	75.1
Installed thermal capacity, Gcal/h	34,991.8	34,880.3
Heat generation, Gcal mln	72.5	73.3
Payroll, pers	47,801	47,596

Basic financial and economic indicators	2002	2003
Proceeds from sales of products, RUR mln	52,962.4	69,605.0
Profit on sales, RUR mln	4,595.4	6,643.2
Net profit, RUR mln	646.3	1,731.0
Balance sheet total, RUR mln	119,633.1	126,674.9
Shareholders' equity, RUR mln	103,334.3	104,452.4
Accrued dividends, RUR mln	519.3	613.1
Sales margin, %	8.7	9.5
Earnings per share, RUR	0.023	0.061

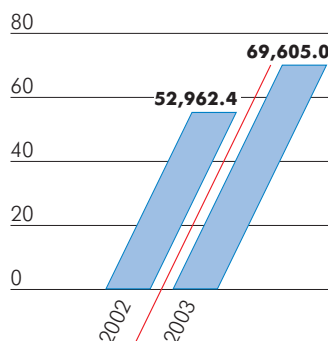
■ Electricity generation,
kWh bln



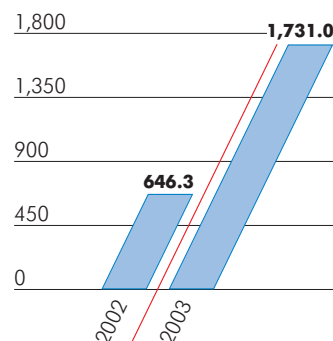
■ Heat generation,
Gcal mln



■ Proceeds from sales of products,
RUR mln



■ Net profit,
RUR mln





Power industry...

*Powerful machines and mechanisms,
sophisticated processes and power transmission
and distribution systems, impressive
buildings and structures.*

*Yet the electricity and heat, generated
by the turbines, is complemented
by the energy of thousands of people,
who put their heart and soul into the work.
Our specialists work twenty-four hours
a day to provide the dwellers
of the Moscow area with
a steady supply of energy –*

MOSENERGO's energy!

k W h



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Dear shareholders,

Please, accept my congratulations on the successful completion of the year 2003, the eleventh year of our Company's operation!

During this period, MOSENERGO was able to support functioning of the power system at a profit and to pay annual dividends, while supplying energy to the Moscow area on a steady-going basis. Notably, the size of the dividend has been growing year by year. The continuous improvement of quality of business planning and budgeting of financial and economic operations, better corporate governance have contributed significantly to MOSENERGO's stocks, being put in a firm place among the most liquid blue chips in the stock market of Russia.

The Board of Directors is assigned to play the most important role in securing the shareholders' rights, in working out and implementing the Company's development strategy, as well as in providing for its successful financial and economic activities. Activities of the Board of Directors became more transparent for shareholders in the reporting year, as the results of work and key decisions, adopted at the Board's meetings, were regularly placed on MOSENERGO's website (www.mosenergo.ru).

The structure of the Company's Board of Directors improves. As elected by shareholders on May 30, 2003, the Board includes representatives of OAO RAO UES of Russia, Moscow and Moscow Region Governments, minority shareholders, and managers of MOSENERGO.

The work of three Directors, representing minority shareholders had, a very positive effect on the performance of the Board in 2003. Such an optimized composition of the Board helps address key issues of the Company's functioning with a view to securing the interests of all shareholder groups.

In December, in pursuance of recommendations of the Code of Corporate Conduct, issued by the Federal Securities Commission of Russia, it was decided to set up an Audit Committee at the Board of Directors of MOSENERGO, which is called to provide for the Board's supervision of the financial and economic activities of the Company.

In the past year, the Board discussed issues of the oncoming restructuring of the power utility more than once. The MOSENERGO restructuring plan was approved by the Executive Board of RAO UES of Russia at the turn of December 2003. It originates from the base restructuring option, fixed in RAO UESR's "5+5" strategy, and follows the terms and conditions of the cooperation agreements signed with the Governments of Moscow and Moscow Region and approved by MOSENERGO's Board of Directors last October.

In pursuance of the above agreements, after unbundling from the Company of a number of companies specializing in core (energy generation, sale, transport) and supporting (construction, designing, repair) activities, as well as after divestiture of non-core assets the Moscow and Moscow Region Governments will become entitled to increase their shares in the respective transmission companies to 51% and more through reopening of issues of shares of such transmission companies.

During restructuring, the American law requirements will be also taken into consideration, inasmuch as about 9% of MOSENERGO's shares in the form of ADR are traded at the stock markets of the USA and Europe.

The MOSENERGO restructuring plan was approved by the Government Commission for Energy Reform, ad hoc committees at RAO UES of Russia, by the Board of Directors of RAO UES of Russia and by the Board of Directors of MOSENERGO.

The Board of Directors defines the priority areas of the Company's development, and designates main targets in the Company's activities in the long run.

■ *MOSENERGO's priorities are the following fields:*

- reliable and steady energy supply to the region with the process safety codes and standards observed;*
- reform the Company in accordance with the plan;*
- improve the level of corporate governance in the Company;*
- protect shareholder and investor rights;*
- improve the efficiency of sales, and increase responsibility for the end results;*
- improve the tariff policy with a view to ensuring profitability of energy production;*
- save costs;*
- mobilize external funds;*
- honor obligations to shareholders and creditors.*

I think, I can say in conclusion, that over the past years we succeeded in laying the foundation of an up-to-date system of corporate governance and establishing a mechanism for involvement of all MOSENERGO shareholders in making strategic decisions.

I am sure, that the well-wishing support of our shareholders will facilitate successful implementation of the plans to reform MOSENERGO, help its effective work and ensure higher benefits for the Company's shareholders, and, hence, more dividends paid thereto.

Chairman of the Board of Directors

A.Ya. Kopsov



Dear shareholders,

Hereby we present a report on MOSENERGO performance in 2003, that inchoates a new decade of the Company's existence as an open joint stock company for energy and electrification.

The prime objective of MOSENERGO, as ever, was reliable and uninterrupted supply of energy to its Moscow and Moscow Region consumers. We may state, that we have dealt successfully with the task. Without shrinking into the daily round, we did it to the utmost of our power to carry on our business in the normal creative tideway as consistent with our program guidelines and plans of the power utility restructuring and to provide for hopeful prospect of MOSENERGO development. This is connected with the equipment stock renewal, and with capital construction, and with accomplishment of the planned amount of repair operations for preserving the equipment life, and with training of highly-qualified personnel, and with social decisions.

MOSENERGO supports vital functions of the Moscow area with a population of 17 million people and a territory of about 47.0 thousand sq. km, as well as all its segments of industry, defense, transport, communications, agriculture, science and art, health care, services sector, administration, etc. Presently, MOSENERGO has got nearly 5 million clients, including 4.8 million residential subscribers, 7.8 thousand industrial, 3.5 thousand agricultural and 125.8 thousand nonindustrial and service enterprises.

Today, MOSENERGO is the country's second largest power utility after OAO RAO UES of Russia, commanding 14.8 million kWh of electric capacity and 34.9 thousand GCal/h (40.6 million kWh) of heat capacity. By its heating capacity, MOSENERGO is second to none in the world.

In view of ever-growing demand of the Moscow area customers for electricity during last seven years, MOSENERGO, while stepping up its own electricity generation in 2003 (a 5.5% growth), bought some electricity in the FOREM Federal Wholesale Market as consistent with the Company's economic interests. A total of 2.86 billion kWh was bought.

The Company maintains strong positions in the sphere of electricity and heat sales. Cash-based sales amounted to 102% of the accrual-based sales.

Positive developments occurred in our work with the most troublesome consumers, such as government-sponsored entities, municipal organizations, and wholesale resellers.

Comprehensive preparation of energy assets to the winter was, as usual, a key task, and it was accomplished quite successfully. Maintenance work on various equipment was done within the planned scope, sufficient fuel reserves were built up, grid subsidiaries were fully readied for operation. Heating was turned on just on time. The power utility and all its branches obtained their Certificates of Preparedness for the Winter.

In 2003, the power system operated accident-free, and the number of breakdowns in process has reduced by 11.4%.

The work on tariff revision is carried out by MOSENERGO in close cooperation with the Regional Energy Commission of the City of Moscow and the Energy Committee of the Moscow Region.

The Company's tariff policy is aimed at gradual elimination of cross-subsidization between electrical and thermal power and among customer groups, use of tariffs differentiated with respect to the voltage levels and dual-rate tariffs, ringfencing of heat consumers within steam consumers.

The elimination of cross-subsidization will establish economic conditions for stabilization of the industrial sector of the Moscow area and growth prospects for electricity consumption.

Having closed the year 2003 with flying colors, we are glad to report, that the earned net profit of RUR 1.73 billion provides increased dividend rate based on the balance of the Company's work in 2003 as compared with 2002.

The Company has been consistently implementing its Energy Development Program for the Moscow Region, that covers the period leading up to 2010. All projects, that we are going to implement, contemplate application of advanced materials and equipment in line with the world standards.

This will help us respond to environmental challenges, to which MOSENERGO gives priority, with greater efficiency. Environmental protection is a vital issue. Our task during refurbishment of the operating equipment and installation of a new one is to bring its parameters in compliance with the standards of environmental management. MOSENERGO is faithful to its motto, "Towards light, warmth and Friendly environment!", which reflects the dictates of the time as regards our work.

The condition of the Company's fixed assets, and implementation of measures aimed at improvement of the technological level of power production and commissioning of new capacities is continuously at the focus of attention of the Company's Board of Directors and Executive Board.

In 2003, capital investments amounted to RUR 8.0 billion, of which 89.6% came from MOSENERGO's own funds. We launched a new 110 MW turbine, the transformer capacity of the power system grew by 295.3 thousand kVA, the Company laid 113.1 km of below-10 kV cable lines, 139.8 km of high-voltage transmission lines and 700.9 km of distribution feeders, rebuilt 17.1 km of heating grids. The planned scope of our construction program for 2004 is close to the regular values.

In addressing the issue of our fixed assets' ageing, we have no choice but mobilize our entire internal reserves and some extra funds and resources. Due to this, we are going, as before, to continue our efforts to secure cooperation of both Russian and international investors.

Maintaining the stability and high professional level of its workforce and improving the social welfare of the power utility employees are an integral part of the Company's activities. During 2003, in pursuance of the sector's tariff agreement, MOSENERGO raised base wage rates and official salaries. We have accumulated a vast experience in the field of personnel training and development, medical care and retirement insurance, organization of summer vacations for the employees and their families, labor safety programs. We strive to strengthen and develop these lines of activity.

The Company Restructuring Plan, developed within the framework of the overall structural reform of the power sector, was approved by the Boards of Directors of RAO UES of Russia and MOSENERGO, and the first phase of restructuring commenced. Budgeting and business planning are done by fields of business. In order to improve the Company's efficiency and profitability, MOSENERGO has been working to spin off its non-core branches.

For the purpose of integrated automation of the power system control domain, MOSENERGO creates a corporate information collection/management system based on modern software tools, which will make the Company a more attractive investment and capitalization target, and ensure transparency and optimization of basic business processes.

An emphasis is put on the issues of accessibility of general and financial information about the Company. The Company not only publishes data in accordance with the current legislation, but also discloses complementary information: the shareholders receive quarterly reports on the business operations of the Company, as well as quarterly financial statements. The management holds regular briefings and press conferences on the live issues of the Company activities. A package approach to pursuing such information policy enables the shareholders to get a complete picture of the Company's operations and changes that take place, particularly those connected with its reorganization.

Apart from the main federal press and Internet publications, MOSENERGO activities are covered by regional editions in 40 municipalities of the Moscow Region, newspaper supplements about the Company's operations are published in 10 districts around Moscow.

Conscious of our great responsibility to the society for the most important of all factors of its stability and well-being, a reliable power supply, we are trying to explore every avenue to make the economical growth not a random phenomenon, but an everyday occurrence in functioning of the Moscow energy sector.

There is no doubt, that with your support, dear shareholders, MOSENERGO's advance will become our common cause and effect.

Chairman of the Executive Board



A.V. Yevstafiev

General Information, the Company Standing in the Industry

The year 2003 proved to be the most successful for the Russian economy in the last three years. According to Goskomstat data, the annual GDP gain amounted to 7.3% (4.7% in 2002). Production output in key branches of economy (industry, construction, agriculture, transport and retail trade) rose by 7.1% as compared with 2002 (3.8%). The annual increase in capital investments in the country amounted to 12.5% (primarily, in the fixed assets). The similar indicator in 2001 and 2002 was 8.7% and 2.6%, respectively. A stable surplus was provided in the public sector, and the inflation subdued to 12.2% (15.1% in 2002). Russia pays its external debts, and its credit enhances.

During the last four years, the labor productivity in Russia grew by more than 30%, and capital investments by more than 35%. Russia therewith leaves behind the developed countries belonging to the Organization for Economic Cooperation and Development by the industrial product accession rate which is 2–3 times higher, and by the investments accession rate which is six times over.

The city of Moscow and the Moscow Region are two independent constituent members of the Russian Federation. Together they form the Moscow metropolitan area. Area of Moscow forms 1080 sq. km. The Moscow Region (without Moscow) occupies 46 thousand sq. km.

Moscow is the largest in the country and one of the most important in the world political, financial, industrial, scientific and cultural center. The metropolitan population is 10.4 million people (according to the data of the last census of the population). The industrial production of Moscow makes 5.6%, capital investments 16.2%, retail turnover 28.7% of the Russia's overall level.

Moscow is an important transportation node of the country situated in the industrial Central Economic Area. 11 railway lines and 13 motor roads tie together the capital and all regions and other countries.

The present-day borders of the Moscow Region exist from the early 60's of the 20th century. The Moscow Region consists of 39 administrative districts, as well as 74 towns (including 56 under regional and 18 under district authorities jurisdiction), 111 settlements of urban type (including 74 workers' housing estates and 35 summer colonies), 6.3 thousand rural communities. The Moscow Region population is 6.6 million people.

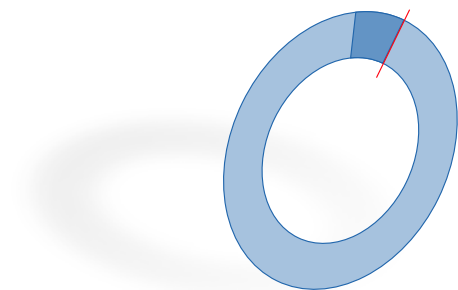
By the industrial output, the Moscow Region is the second-best after Moscow among the Russian Federation regions.

The developed trades in the Moscow Region are: light industry, mechanical engineering, food and chemical industry, non-ferrous metallurgy, building materials industry.

By supplying energy to the Moscow area, MOSENERGO provides for stable functioning and sustained development of its economy and social sphere.

At the present time, MOSENERGO is a natural monopolist in generation of electrical energy in the Moscow area and covers (with an allowance for buying in the Federal Wholesale Market) 98.5% of its electricity demand, with 1.5% satisfied by isolated generating plants. For two years in succession, electricity consumption in the area exceeds the maximum level of 1990 (74.1 billion kWh). In 2002, it stood at 75.4 billion kWh, in 2003 it rose to 79.2 billion kWh, i.e. by 5% year on year.

■ MOSENERGO Weight in Gross Russia's Russian Federation, %



■ Russian Federation.....100,0
■ MOSENERGO7,0

MOSENERGO's Mission

■ **MOSENERGO's mission consists in supplying consumers with clean energy produced with the use of resource-saving advanced technologies on state-of-the-art equipment.**

■ **MOSENERGO sees its goal in attainment of the highest economic efficiency, earning power, attraction as an investment.**

■ **MOSENERGO observes the rights and protects interests of its shareholders, values its reputation, is steady in following the ethical code and straight dealing rules.**

■ **MOSENERGO in its activity is guided not only by economic factors, but also by social responsibility rationale: while providing Moscow and the Moscow Region with heat and light, MOSENERGO regularly implements charitable programs giving support to culture, sports, education.**

■ **MOSENERGO values its staff and creates conditions under which every employee of the Company can self-actualize to the full extent.**

■ **MOSENERGO is proud of its history which is entwined with the history of the whole country.**

MOSENERGO at a Glance

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Early in the 19th century, the philosophical category of "energy" was first used to describe physical processes. Soon energy was perceived as a new universal absolute, the universal equivalent of the industrial age...

Pursuant to a resolution of the International Olympic Committee, Moscow has become one of the five contenders to host the 2012 Summer Olympics. Center spread shows a panorama of Moscow illuminated by MOSENERGO's energy. In the foreground is the Large Sports Arena of Luzhniki Olympic complex





2003 Facts and Events



February 21

With effect as of March 1 in Moscow and as of February 20 in the Moscow Region the respective Regional Energy Commissions set new electricity and heat tariffs.

March 11

MOSENERGO's Board of Directors approved the Company's membership in Nonprofit Partnership "Wholesale Electricity Market Trading System Administrator of the Unified Energy System" (NP ATS). The final decision on MOSENERGO's admission to NP ATS is to be taken by RAO UES of Russia.

May 30

The annual General Meeting of MOSENERGO's Shareholders was held to discuss the Company's performance in 2002. According to the agenda, the Meeting of Shareholders reviewed and approved the annual report, annual accounting statements, profit and loss account of the Company, and the distribution of profit, based on the results of the Company's operations in 2002. The Meeting of MOSENERGO's Shareholders decided to pay the 2002 dividend on the Company's ordinary registered shares in the amount of RUR 0.01837 per ordinary share of the Company in cash within 60 days after the date, when the decision to pay the same was made. The Meeting elected MOSENERGO's Board of Directors and Audit Commission. (1)

July 11

MOSENERGO commissioned a new Shukolovo substation with an installed transformer capacity of 64 MVA. (2)

July 25

The Second International Competition of Unit TEP Operating Personnel ended in Moscow. The competition was organized by RAO UES of Russia, MOSENERGO and ESKOM, a South African energy company. The team of MOSENERGO's TEP-26 became the winner of the competition. (3)

September 1

The Board of Directors adopted a resolution on establishment of Electrical Transmission Grids, a Company's branch, with amendment of the Company's Charter as appropriate and registration of such amendments as required by law. The branch was allocated the Company's electricity transmission assets relating to the Unified National (All-Russian) Electricity Grid, including dispatching and technological control facilities.

October 9

The meeting of MOSENERGO's Board of Directors approved agreements for cooperation in reforming the electric power complex signed by the governments of Moscow and the Moscow Region.

November 5

The Certificates of Preparedness for the Winter were issued to MOSENERGO and all inspected branches of the Company. From mid-September through late

October, special commissions comprising representatives of MOSENERGO, FGU "Gosenergonadzor Department for the Moscow Region", territorial agencies of Gosgortekhnadzor of Russia and Tsentrenergotekhnadzor assessed the technical state, operating efficiency of the Company branches equipment under peak load conditions, fuel availability, as well as the outcome of personnel training in elimination of potential emergency situations.

December 1

The Second System-Wide Contest Between Operational and Dispatching Personnel of Electric Grids came to an end. The participants demonstrated high professional skills and an ability to expeditiously find adequate solutions in complex emergency situations at the power system.

December 9

Installation of a new car dumper at TEP-22 completed. The mounting work began in May 2003, and on December 5 the state commission, headed by the Deputy Mayor of the town of Dzerzhinsk, signed an acceptance certificate.

December 10

An international forum "Fuel and Power Resources of Russia" was held in Moscow. The forum participants were leading enterprises of the Russian fuel and energy complex, including MOSENERGO. At the exhibition, the Moscow energy company benched two projects: a model of MES-60 combined-cycle power plant developed by FSUE Salyut (TEP-28), and specimens of tubes and formed parts heat-insulated with foamed polyurethane (Mosteplosetenergoremont). (4)

December 18

MOSENERGO put into operation a new electrical substation, Akademicheskaya, furnished with two transformers of 63 thousand kVA each, and with 220 kV SF₆ circuit breakers, produced by ABB, Switzerland.

December 20

Within the framework of the preparatory phase efforts to reform MOSENERGO, the Company detached MOSENERGO's dispatching unit (RDU) to OAO "Central Dispatch Unit — System Operator of the Unified Energy System of Russia" (OAO "UES SO-CDU"). Simultaneously, MOSENERGO created a central dispatch service and an electrical and power control service.

December 22

The Executive Board of RAO UES of Russia approved the MOSENERGO Restructuring Plan.

December 25

The Company completed refurbishment of turbine-generator set No. 8 at TEP-22, which had been in service for over 35 years. As a result of the refurbishment, the electric power of the turbine had reached 110 MW. (5)

MOSENERGO Today

MOSENERGO is the largest regional energy supplier of the Russian Federation. Being a RAO UESR's subsidiary, MOSENERGO is essentially an indispensable integral part of the Unified Energy System of Russia.

The Company's power system represents a complex of power plants, transmission lines, transformer substations, heating grids, and pumping stations, linked up for joint operation, having a common operation mode and relying on a shared capacity reserve and a centralized operational and dispatching control system. The installed electrical capacity of the Company accounts for 14.8 thousand MW, the installed thermal capacity is 34.9 thousand Gcal/h (40.6 thousand MW), the length of high-voltage 35–500 kV transmission lines is 18.4 thousand km, that of 0.4–10 kV distribution lines is 58.1 thousand km, cable grids are 57.1 thousand km long, the aggregate length of heating grids is 2.24 thousand km.

The Company comprises 61 branches and is essentially a single production and technological complex.

Energy and power for the energy system are generated by 21 power plants. Most of the system's power plants generate both electricity and heat. MOSENERGO's thermal plants operate 125 turbines, including 96 cogeneration steam turbines, 11 condensation cycle turbines, 6 gas turbine units and 2 expansion generating units.

Transmission of electricity from the power plants to consumers, as well as maintenance of high-voltage and distribution grids, cable lines, and transformer and distribution substations are provided by 14 electricity grid branches, 5 of which serve both the city of Moscow and the Moscow Region, 9 serve the Moscow Region only. Moscow Cable Grid branch serves the city of Moscow and High-Voltage Cable Grids branch serves the city of Moscow and some lines in the Moscow Region. In 2003, MOSENERGO established a new grid branch, Electrical Transmission Grids, and allocated to it the Company's electricity transmission assets relating to the Unified National (All-Russian) Electricity Grid, including dispatching and technological control facilities.

Sales of electricity and power to the consumers are handled by MOSENERGO's Energosbyt and ZAO Service Center for Energy Sales (TsOP-Energo). MOSENERGO provides electricity to around 5 million consumers, including 3.6 millions in Moscow, and 1.4 million in the Moscow Region.

Transmission of heat and operation of Moscow's heating grids are vested with Heating Grids, a MOSENERGO's branch.

Heat sales in Moscow go through TsOP-Energo, and in the Moscow Region, through LAPS-3, 4, 5, TEP-6, 17.

MOSENERGO supplies heat to over 15 thousand subscribers in the Moscow area: about 14.5 thousands in Moscow, and 548 in the Moscow Region.

Along with the power plants and grids, the power utility's operation is supported by its factories, maintenance, construction and equipment setup branches, an IT Center, Energosvyaz, design and development bureaus and other branches.



Our Business Environment

General Information, the Company Standing in the Industry18

Risk Management19

*By its consumer properties, electricity
has become the "blood of life"
for the humankind*

By supplying energy to the Moscow area, MOSENERGO provides for stable functioning and sustained development of its economy and social sphere

MOSENERGO'S Generating and a Send Branches as of January 01, 2004

■ MOSENERGO's power stations					
Power station	Aggregate electrical capacity, MW	Aggregate heat capacity, Gcal/h	First unit commissioned	Latest unit commissioned	
				turbines	boilers
TEP-1, including the branch	72.70	892.00	1897	1998	2001
LAPS-3	627.08	298.98	1914	1999	2000
LAPS-4	1,580.00	385.00	1922	1983	1987
LAPS-5	1,100.00	344.30	1920	1982	1986
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	705.00	2,378.00	1952	1999	2002
TEP-21	1,340.00	4,603.00	1963	2000	1983
TEP-22	1,300.00	3,614.00	1960	2003	1973
TEP-23	1,410.00	4,515.00	1966	1997	1982
LAPS-24	310.00		1988	1988	1988
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
Zagorsk PSP	1,200.00		1988	2000	—
Total:	14,778.78	34 880.28			
Note: The aggregate heat capacity includes the capacity of steam water boilers					

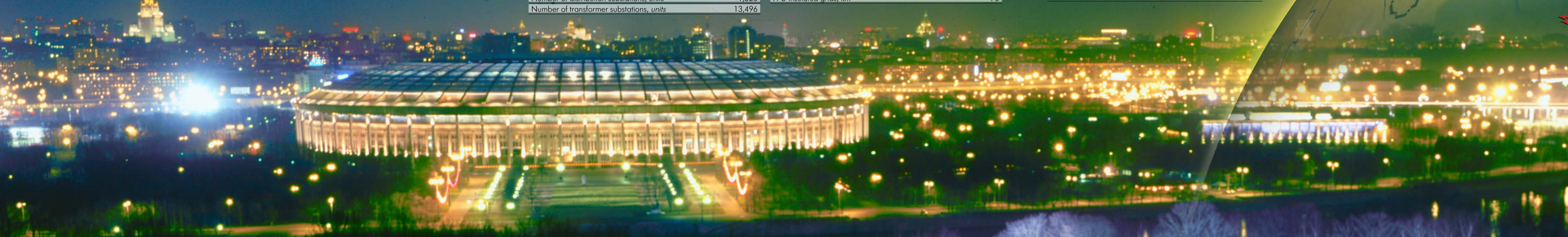
■ MOSENERGO's high-voltage electric grids					
Electric Grid	Length of overhead transmission lines, km				Area covered, sq km
	Total	220 kV	110 kV	35 kV	
Yuzhniye	1,239.5	323.9	787.1	128.5	2,392
Vostochniye	636.9	128.5	404.6	103.8	3,600
Oktyabrskiy	1,868.9	625.8	842.5	400.6	4,000
Severniye	1,542.4	513.5	639.4	389.5	2,924
Naginskiye	1,660.6	395.7	1,010.1	254.8	3,830
Podolskiye	2,002.0	654.4	1,008.1	339.5	3,940
Kolomenskiye	1,442.6	242.3	1,055.2	145.1	3,978
Shaturskiye	1,553.4	420.6	724.4	408.4	4,370
Zapadniye	2,106.7	586.9	1,048.0	471.8	3,447
Dmitrovskiy	1,059.5	166.6	502.0	390.9	3,088
Mozhayskiye	990.4	119.0	339.7	531.7	4,758
Volokolamskiye	801.7	83.8	214.0	503.9	3,383
Kashirskiy	1,540.2	339	967.4	233.8	3,290
Total:	18,444.8	4,600.0	9,542.5	4,302.3	47,000
Note: As from January 1, 2003, MOSENERGO has ceased operating 500 kV overhead lines					

■ Moscow cable grid	
Number of cable inlets, units	114,283
Installed transformer capacity, thousand kVA	14,661.0
Length of cable lines, km	56,310.1
including by voltage:	
0.4–1 kV	19,168.0
6–10 kV	37,108.5
35 kV	33.6
Number of distribution substations, units	1,820
Number of transformer substations, units	13,496

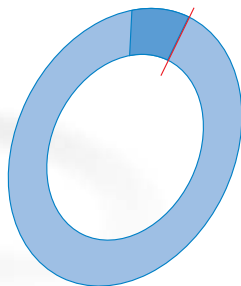
■ Heating grid	
Aggregate connected load, thousand Gcal/h	31.2
Length of grids expressed as two-pipe length, km	2,240.3
including:	
water	2,203.0
steam	37.3
Pressure pumping stations, stations	22
Drain pumping stations, stations	219
FPU-insulated grids, km	75

MOSENERGO's distribution grids												
Electric grid	Installed transformer capacity, thousand kVA	Number of 6–10 kV distribution and transformer substations, units					Length of 0.4-10 kV overhead transmission lines, km	Total	Including insulated cable	Including 6–10 kV cable lines	Including 6–10 kV lines	Number of feeders in 6–10 kV, units
		Total	Including									
			DTS	ITS	UTS	PMTS						
Yuzhniye	280	568	34	247	159	128	2,198	73	422	838	103	
Vostochniye	131	325	12	136	117	60	1,392	97	321	513	200	
Oktyabrskiy	403	1,370	65	684	382	239	5,322	138	865	2,062	518	
Severniye	444	1,306	77	436	538	255	4,650	226	1,267	1,577	274	
Noginskiye	173	566	31	171	338	26	2,617	70	245	1,307	116	
Podolskiye	509	1,501	82	516	534	369	6,726	2,7	852	3,325	577	
Kolomenskiye	520	1,605	53	639	748	165	6,579	86	529	3,072	381	
Shaturskiye	140	560	0	161	234	165	3,124	29	59	1,688	96	
Dmitrovskiy	289	960	20	330	472	138	3,524	51	228	1,933	184	
Zapadniye	740	1,865	132	658	960	115	8,167	88	2,319	2,952	699	
Mozhayskiye	398	1,505	44	468	831	162	5,306	173	464	2,631	349	
Volokolamskiye	303	1,142	20	363	747	12	3,664	103	89	2,065	184	
Kashirskiy	280	883	44	281	226	332	4,860	62	178	2,685	312	
Total:	4,610	14,156	614	5,090	6,286	2,166	58,129	1,198.7	7,838	26,648	3,993	

■ High-voltage cable grid	
Length of cable lines, km	752.1
including by voltage:	
110 kV	598.1
220 kV	153.1
500 kV	0.9
Note: The length of 110–500 kV cable lines is indicated for 15 branches of MOSENERGO	

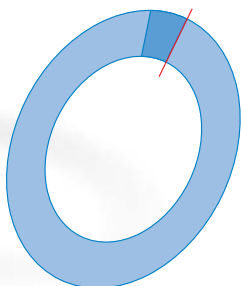


■ MOSENERGO Weight in Gross Russia's Electricity Generation in 2003, %



Russian Federation	100.0
MOSENERGO	8.2

■ MOSENERGO Weight in Gross Russia's Heat Generation in 2003, %



Russian Federation	100.0
MOSENERGO	5.3

MOSENERGO supplies more than 70% of heat consumed in Moscow. Another large heat supplier in Moscow is Mosteploenergo, a state unitary enterprise accounting for approximately 30% of thermal power, consumed in Moscow. It is a municipal state-owned enterprise with a hundred-percent interest of the Moscow Government.

As an-independent source of power supply in Moscow, private investors erect a GTU-TEP for powering the Moscow-City International Business Center with the installed capacity reaching in perspective 232 MW, or 1.5% of MOSENERGO's installed capacity.

The Company generates about 8.2% of electricity and 5.3% of heat of Russia's yield (including nuclear power plants), and 12% of electricity and 16% of heat of RAO UESR's output, with MOSENERGO's installed electrical capacity being around 7% of Russia's electrical capacity and 9.5% of RAO UESR's installed capacity. This is the top score among 74 regional companies.

By the value of installed capacity and generation of electrical energy, MOSENERGO is comparable with such companies as English Power Gen or Spanish Endesa.

While overall RAO UESR's electricity generation in 2003 rose by approximately 3%, and heat sales from the power plant manifolds practically remained unchanged, MOSENERGO showed a 5.5% growth of electricity generation, and 1.1% — of heat.

Per worker, electricity generation in RAO UESR at large is about 1 million kWh, while in MOSENERGO it is 1.58 million kWh, and the heat generation is 0.5 and 1.54 thousand Gcal, respectively.

Risk Management

Risk is a potentiality of untoward conditions and consequences incidental thereto in the form of losses. MOSENERGO's concern in the risk management is minimization of disamenities of risks in the Company operations and its financial performance.

Country and Regional Risks

Political risks. Recent years in Russia are marked with political stabilization that has created a climate congenial to investments in the domestic industry and has brought down political risks.

At the same time, the risks, incidental to a threat of acts of terrorism in Moscow and other Russian cities, have grown.

Should the line of policy change, the industry restructuring issue may be put into cold storage, and that will have a durable detrimental effect on MOSENERGO's operations. It may also lead to freezing or administered reduction of tariffs.

Economical risks. Higher rates of advance in prices can cause the Company's cost escalation and result in a profit crunch.

A risk of economic downturn in Russia may find expression in a growth of the Company's accounts receivable and, respectively, payables to suppliers and contractors.

A risk of unreasonable rate regulation is associated with a possibility, that energy commissions may approve such tariff rates, that will be inadequate to the Company's costs.

In order to decrease the economical risks, the Company has developed and implements a Cost Control Program, including competitive selection of suppliers and contractors, has arranged for planning of daily volumes of payments and online monitoring of the consumers payments for electricity and heat.

Financial risks. MOSENERGO is subject to financial risks incidental to changes in interest rates on credits due to the fact that it is using and plans to use long-term credits.

During the last few years, the interest rates showed a downward trend in agreement with the reducing refinancing rate of the Central Bank of Russia.

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.

A risk of assets loss as a result of property destruction includes 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 consequences of accidents, disasters and natural calamities, provides emergency and fire-fighting training of personnel.

Check raids and measures to prevent stealing are arranged jointly with law enforcement agencies.

Risks of civil responsibility:

- a risk of the area pollution liability and third party property tort;
- a risk of product liability in supplies to the domestic market of the area and to the Federal Wholesale Market (frequency and voltage for electricity, temperature and pressure for heat);
- a risk of management responsibility for damage inflicted to life and health of the Company's employees.

In order to mitigate the risks, the following measures are put into effect:

- 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 improve 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.

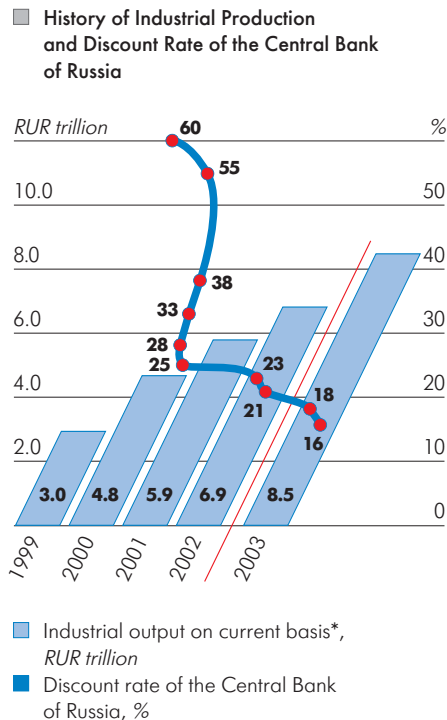
Power Sector Risks

The basic power sector risk at the present time is associated with the industry restructuring, as well as with obsolescence of its fixed assets.

In the course of restructuring, the companies are planned to be separated by lines of business (transmission, generation, sales), which detracts assets per each new company and can result in loss of liquidity of their shares, particularly at the initial stage.

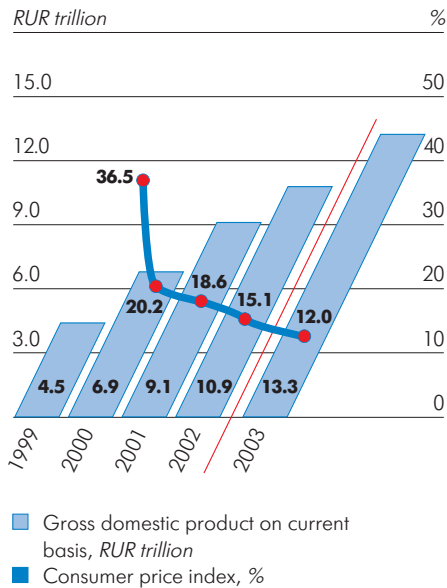
At the same time, there are risks associated with functioning of newly established businesses in unfamiliar for them competitive environment.

In the course of energy reform, **corporate governance** risks become actual, conflicts of interest may arise between different groups of shareholders, clashes between the requirements to enhance efficiency of the Company management (for the account of higher tariffs



* Source: Goskomstat of Russia

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



* Source: Goskomstat of Russia

and lower costs) and the requirements to ensure steady-going, good-quality and accessible energy supplies to consumers.

In order to minimize the corporate governance risks during allotment of shares of new companies among the Company's shareholders, a "mirror" principle will be applied, according to which the number of shares in each new company received by every shareholder will be equal to the number of shares, held by them in MOSENERGO.

Industrial risks:

- a risk of change-over to operation with forced (emergency justifiable) overflows of electricity;
- a risk of simultaneous steep increase of electric load in excess of that scheduled on the basis of the consumer demand orders;
- technical risks incidental to the equipment operation. The above risks are associated with such factors as operation of equipment derated to the standard limits, errors of the operating personnel, disruption of a dispatch schedule and breach of discipline.

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 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.

Operational risk. 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 arranges training of managers and specialists at post-graduate training establishments.

Investment risks are understood to be a possibility to receive an actual income on implemented investment projects short of the estimated value.

They include the following risks:

- long payback period in construction of new power facilities;
- invention of alternative methods of electricity and heat generation.

Any possible damage is offset through the investment risk management, which includes recognition of the above-listed factors during assessment of investment projects efficiency.

Risks Incidental to the Company Operations

Risks, associated with a lack of opportunity to extend MOSENERGO's license for a particular type of activity or for use of objects with limited circulability (including natural resources). MOSENERGO has never been refused a license.

The seasonal nature of the Company operation is connected with the nature-dependent behavior of the energy demand in the region. The peak consumption of electricity and heat occurs in winter period, whereas in summer period the power consumption declines. The Company's expenses and returns follow the same pattern. The Company in its activity strives to control the problems caused by energy demand fluctuations, including through planning repair operations for the summer period.



The Result of Our Work Is Benefit for the Shareholders

Profit	24
Sales	24
Production Cost	25
Tariffs	26

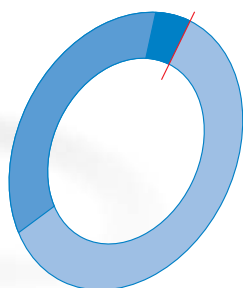
***Electricity as an embodiment
of the category "energy" is the basis
for the satisfaction of the energy
needs of the civilized life
on the Earth***

Literate industrial process control significantly improves efficiency of the power generation and transmission, which, in its turn, increases the earning power of the Company



Profit

■ Distribution of 2003 Net Profit, %



Accumulation fund	59.6
Dividends	35.4
Reserve capital	5.0

MOSENERGO's profit on sales of marketable products in 2003 amounted to RUR 6,643.2 million, including the profit on the electricity and heat sales of RUR 6,486.2 million.

As compared with 2002, the profit on energy sales increased by RUR 1,966.2 million, or 1.4 times (in 2002, the profit on energy sales amounted to RUR 4,520 million).

The profit on electricity sales totaled RUR 6,993.2 million, a RUR 2 billion, or 1.4-fold, increase over 2002. At the same time, the heat sales yielded a loss of RUR 507.0 million, forasmuch as the effectively prevailing heat tariffs were below its production cost.

After the profit tax and other mandatory payments, the net profit of the Company adjusted for contingency revenues and losses amounted to RUR 1,731.0 million, 2.7 times the level of 2002.

■ Distribution of Net Profit, RUR'000

	1999	2000	2001	2002	2003*
Retained earnings	1,649,324	1,440,204	2,067,573	646,254	1,730,981
Reserve capital	0	72,010	206,757	32,313	86,549
Accumulation fund	196,028	790,452	1,343,187	94,663	1,031,305
Dividends	79,298	216,729	517,629	519,278	613,127
Other purposes	1,373,998	361,013	0	0	0

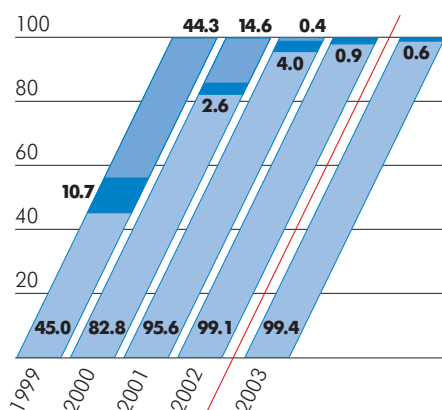
*It is suggested that the figures be approved by the General Meeting of Shareholders

Sales

MOSENERGO's accrual-based sales of commercial output (net of VAT) in 2003 amounted to RUR 69,605 million, including RUR 67,218.1 million on electricity and heat. The growth of electricity and heat sold, as compared with 2002, equaled RUR 16,054.6 million, or 31.4%. Sales of other products totaled RUR 2,386.9 million, up RUR 588.0 million, or 32.7%, year on year.

An increase in commercial product sales was largely caused by a rise in power rates, as well as by a growth in effective sales of electricity and heat to own consumers.

■ Structure of Assets Received for Energy, %



Monetary assets	
Bank bills	
Other means of payment	

■ Structure of Assets, Received for Energy (net of VAT), RUR mln

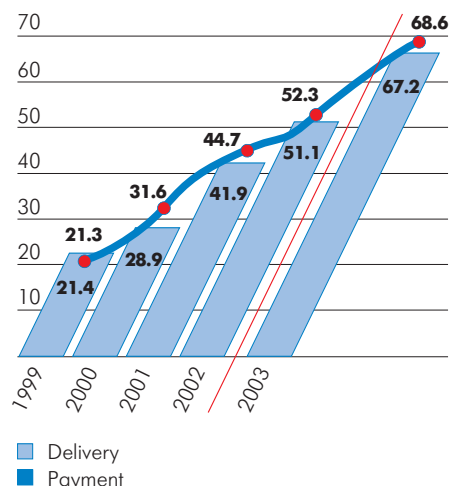
	Monetary assets	Bank bills	Other means of payment	Total
2001	42,706	1,773	175	44,654
2002	51,807	450	2	52,259
2003	68,190	388	26	68,604

As a result of consistent work with the consumers, the Company achieved punctual payments for current power consumption, with almost all payments made in cash.

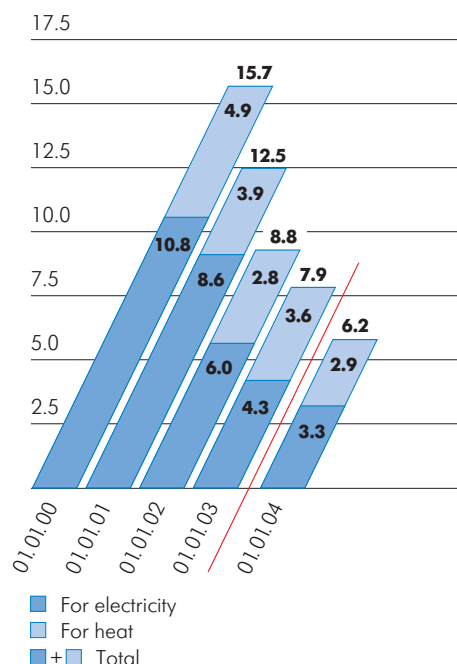
The Company performs an ongoing work to gain a 100% payment for energy consumed and to recover consumer debts.

Accounts receivable from own consumers of electricity and heat reduced by RUR 1,699.1 million, or 21.4% over the year, and as of 01.01.2004 stood at RUR 6,242.3 million.

History of Energy Deliveries and Payment by Own Consumers (net of VAT), RUR bln



History of Receivables Due from Own Consumers for Energy (inclusive of VAT), RUR bln



The reduction of the accounts receivable came primarily on the back of repayment of the debt of industrial consumers and Ministry of Defense, as well as of a large electricity and heat consumer, Mosgorteplo.

The accounts receivable for electricity, supplied to FOREM, decreased from RUR 749 million to RUR 714.6 million, or by 4.6%.

Production Cost

In 2003, the cost of electricity amounted to 69.36 kopecks/kWh (53.58 kopecks/kWh in 2002), and that of heat to RUR 300.25 per Gcal (RUR 242.94 per Gcal in 2002).

As compared with 2002, the production cost increased by RUR 13.1 billion, or 27.4%.

The production cost of electricity grew by RUR 9.2 billion, or 29.4%, the production cost of heat rose by RUR 3.9 billion, or 23.6%.

As compared with the last year, an increase in the production cost is first of all due to a 1.4-fold jump in fuel prices, a 1.3-fold rise in connection fee to RAO UES of Russia, a 1.3-fold increase in repair costs (due to a greater scope of repairs and payments for maintenance labor) and a 1.2 time higher labor costs (in accordance with the tariff agreement with the sector's trade union, Electroprofsoyuz).

The price of the primary fuel, natural gas, was RUR 850.78 per thousand cu m in 2003, a 32.1% accretion to the price of 2002.

The price of gas, purchased in excess of the volumes, established by the long-term agreements, was RUR 1,200.04 per thousand cu m (the purchases were made to reduce fuel oil burning).

A ton of fuel oil in 2003 cost RUR 2,136.9, a 40.3% increase year on year.

Kuznetsk coal was RUR 766.3 per ton, inclusive of the railroad tariff, a 12.3% rise over 2002.

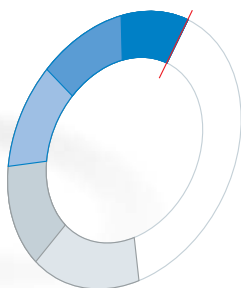
The average price of equivalent fuel increased by 32.1% against 2002.

MOSENERGO's maintenance costs in 2003 totaled RUR 11 billion, which is 34.1% higher, than in 2002, due to a greater scope of repairs and labor costs at the branches, that perform repairs on a contractual basis and at the generation & repair enterprises.

These days, improved operational efficiency is a precondition for successful business, and a company can only be efficient provided it is able to optimize its costs. MOSENERGO has been working on this in a deliberate manner in accordance with yearly operational orders on improving reliability and efficiency of its equipment, and a Costs reduction program.

The actual fulfillment of the Program accounted for RUR 1,047 million exceeding the target by 2.1 times, and was caused by fuel cost saving for the account of suppliers being selected by tender and purchase of extra gas instead of expensive fuel oil (tar-

■ Cost structure, %



■ Fuel	38.9
■ Emoluments, including deductions to social insurance	15.8
■ Material inputs and other cash expenditures	12.9
■ Duly deductions out of production cost	11.7
■ Repairs performed by third party contractors	11.1
■ Depreciation	9.6

get – RUR 140.8 million, actual fulfillment – RUR 517.4 million), in-process and commercial energy loss saving, which actually equaled RUR 196.6 million with the target of RUR 14.4 million, and cutting of raw materials and supplies costs by way of competitive procurement thereof (target – RUR 18 million, actual – RUR 127.6 million).

In 2003, MOSENERGO organized tenders for the supply of goods and services to cover its needs with a view to conclude contracts on the most favorable for MOSENERGO terms. The tenders were organized by MOSENERGO concerns and branches without involvement of outside specialized organizations. The amount of tenders held in 2003 reached RUR 6.77 billion. The actual benefit of the efficiently held tenders made up RUR 438.5 million.

Tariffs

MOSENERGO bills its power consumers in compliance with the tariffs approved by the Regional Energy Commission of the City of Moscow and the Energy Committee of the Moscow Region.

In 2003, new tariffs for electricity and heat were introduced as from March 1 in Moscow and as from February 20 in the Moscow Region. They were formed in accordance with the Instructional Guidelines for Calculation of Administered Tariffs and Prices for Electrical (Thermal) Power in the Retail (Consumer) Market, approved by Resolution No. 49-э/8 passed by the Federal Energy Commission of the Russian Federation on July 31, 2002, grouping consumers as follows:

■ Electricity

Moscow	Moscow Region
Budget-sponsored consumers	Budget-sponsored consumers
Households	Base consumers
Other consumers	Households
	Other consumers
	Municipal power suppliers

■ Heat

Budget-sponsored consumers
Households
Other consumers

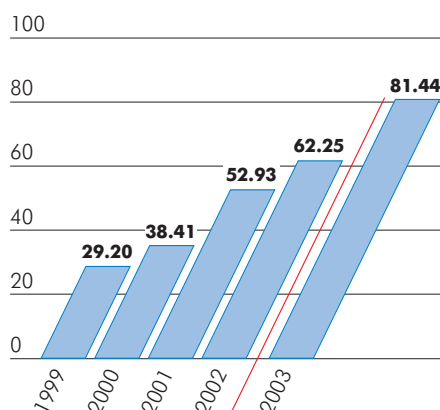
MOSENERGO's general statutory charge for electricity averaged 83.61 kopecks/kWh in 2003 with a 15% accretion to that effective before March 2003, including 86.53 kopecks/kWh in Moscow, or 10% above the earlier approved, and 80.11 kopecks/kWh in the Moscow Region, or up 22%.

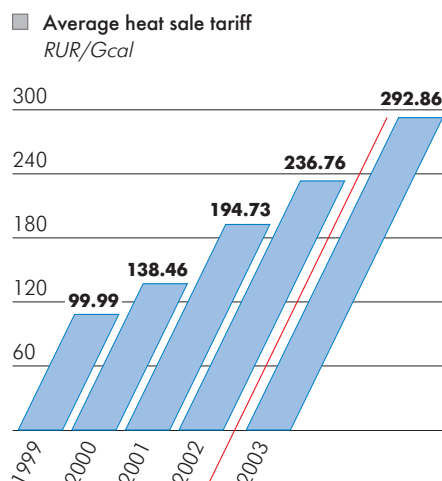
The annual average electricity tariff for MOSENERGO at large stood at 81.67 kopecks/kWh, a 31.2% growth as compared with the average earned rate of 2002, with 84.95 kopecks/kWh in Moscow, up 27.3%, and 77.62 kopecks/kWh in the Moscow Region, a 36.9% runup.

■ Electricity, kopecks/kWh

	MOSENERGO	Moscow	Moscow Region
Average schedule rate			
February 20, 2003	83.61	86.53	80.11
Accretion to the tariff			
March 1 and February 20, %	15	10	22
Annual average tariff for 2003	81.67	84.95	77.62
Accretion to the actual of 2002, %	31.2	27.3	36.9

■ Average electricity sale tariff, kopecks/kWh





The statutory charge for heat averaged 311.19 RUR/Gcal with a 16.5% accretion to that effective before March 2003, including 309.36 RUR/Gcal in Moscow with a 15.4% growth, and 341.57 RUR/Gcal in the Moscow Region, a 33.1% runup.

The 2003 average heat tariff for MOSENERGO at large stood at 308.99 RUR/Gcal, a 30.5% growth as compared with the average earned rate of 2002, with 308.33 RUR/Gcal in Moscow, up 29.7%, and 320.51 RUR/Gcal in the Moscow Region, a 46.7% runup.

■ Heat, RUR/Gcal

	MOSENERGO	Moscow	Moscow Region
Average schedule rate as from March 1 and February 20, 2003	311.19	309.36	341.57
Accretion to the tariff			
March 1 and February 20, %	16.5	15	33
Annual average tariff for 2003	308.99	308.33	320.51
Accretion to the actual of 2002, %	30.5	29.7	46.7

MOSENERGO tariffs still feature sponsoring of households and wholesale resellers at the expense of other consumer categories. Such cross-subsidizing of households spirals down for the account of outstripping growth of residential tariffs as compared with other consumer categories. However, this process is inhibited by restraint upon the rates on the part of the local governments of the Russian Federation constituent members, and by implementation of the government program for reforming the municipal housing economy.

The elimination of cross-subsidization of wholesale resellers may come true in the succeeding period through payment for their services in electricity transmission and conclusion by MOSENERGO of direct contracts with end users.

■ Tariffs and margin of generation

	MOSENERGO	Moscow	Moscow Region
Electricity, kopecks/kWh			
— Annual average tariff	81.67	84.95	77.62
— Average sale tariff	81.44	88.01	73.94
— Production cost	69.36		
Margin, %	17.4		
Heat, RUR/Gcal			
— Annual average schedule tariff	308.99	308.33	320.51
— Average sale tariff	292.86	292.94	309.77
— Production cost	300.25		
Margin, %	-2.5		

Heat generation in 2003, as in 2002, was loss-making for MOSENERGO. The effectively prevailing heat tariff was below the approved rate due to a change in the pattern of payments in favor of the settlements with the consumers who enjoy lower tariffs, as well as by collection of receivables owed by the consumers chargeable at lower rates, and by reduction of payments for the current consumption of heat.

MOSENERGO's key goal in tariff policies is to stand upon its position at the Moscow City REC and the Energy Committee of the Moscow Region that is to bring the existing tariffs to an economically justified level step-by-step.



How We Achieve Our Results

Electricity Generation and Transmission	30
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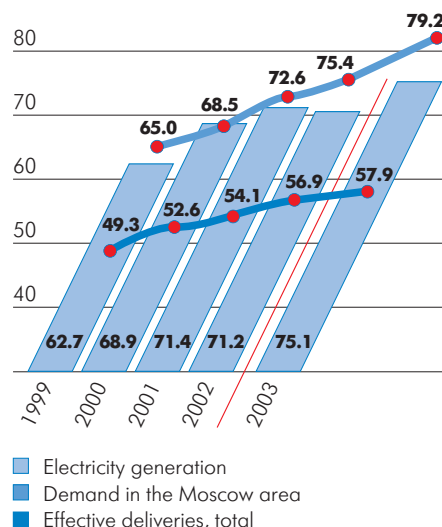
***Generation of power is akin to art.
By producing, processing and spending
energy, Man changes the world making
it friendlier...***

High-tech based energy production is beneficial for the Company and is needed by the people, the City, and the area



Electricity Generation and Transmission

■ Electricity Generation and Supply
kWh bln



The analysis of electricity consumption and capacity history in the Moscow area for the last years shows a steady growth in electricity consumption and capacity (respectively by 5% and 4.4% in 2003).

In 2003, for the second consecutive time the Moscow area exceeded the maximum level of electricity consumption achieved in 1990 (74.1 billion kWh). In 2002, it stood at 75.4 billion kWh, in 2003 it rose to 79.2 billion kWh, i.e. up 5% year on year.

The year 2003 saw a continuous buildup of MOSENERGO consumer load, as compared with 2002, and a particularly high growth took place in February, March, April and June. The exception was November and December, when some load reduction was incidental to warmer weather, yet recalculated for the comparable conditions of 2002 those months also showed a consumer load buildup. Sustained growth of the Moscow area load began in 1997.

The peak power consumption was recorded on January 8 at 6 p.m. at the outside temperature of minus 18.7°C and a frequency of 50 Hz. It reached 13,846 MW, which is 2.7% below absolute peak value recorded on December 24, 2002, and equal 14,230 MW. MOSENERGO's burden therewith with an allowance for power transfer to other systems amounted to 14,379 MW.

An average week days' peak demand was 10,920 MW outstripping similar peak of 2002 by 4.4%. With an average peak reduced to the 2002 conditions, an increment of power consumption by own consumers totaled 4.2%.

In 2003, electricity generation by MOSENERGO's power plants amounted to 75.1 billion kWh, a 5.5% increase against the last year. The gain in generation as compared with the last year can be accounted for the need to cover the growing electricity consumption.

57.9 billion kWh of electricity were sold to MOSENERGO's own consumers, which is 1.7% more, than in the last year.

The contributors to the rise in electricity consumption are the railway transport (18.7%), non-industrial consumers (14.0%), wholesale resellers (5.1%) and municipal transport (4.6%).

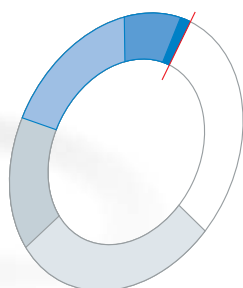
Energy saving for the "Households" category made 13.5%, when calculated using a new energy accounting technique (MOSENERGO's Order No. 154 of 28.02.2003). Energy saving in industry amounted to 1.25% in connection with the customers rearrangement by the consumer groups as from March 1, 2003.

To meet a growing electricity demand, MOSENERGO was buying electricity from other areas during 2003 with due regard to the power utility's economic interests. A total of 2.86 billion kWh was bought (given a plan of zero balance of electricity flow). During 2002 the Company received from the FOREM (balance of electricity flow) 3.16 billion kWh.

Of the total amount of purchased electricity 453.7 million kWh was bought by tender, 643.7 million kWh from the energy pool. The remaining electricity was procured as directed by the System Operator's dispatcher, OAO "UES SO-CDU", and on MOSENERGO's initiative.

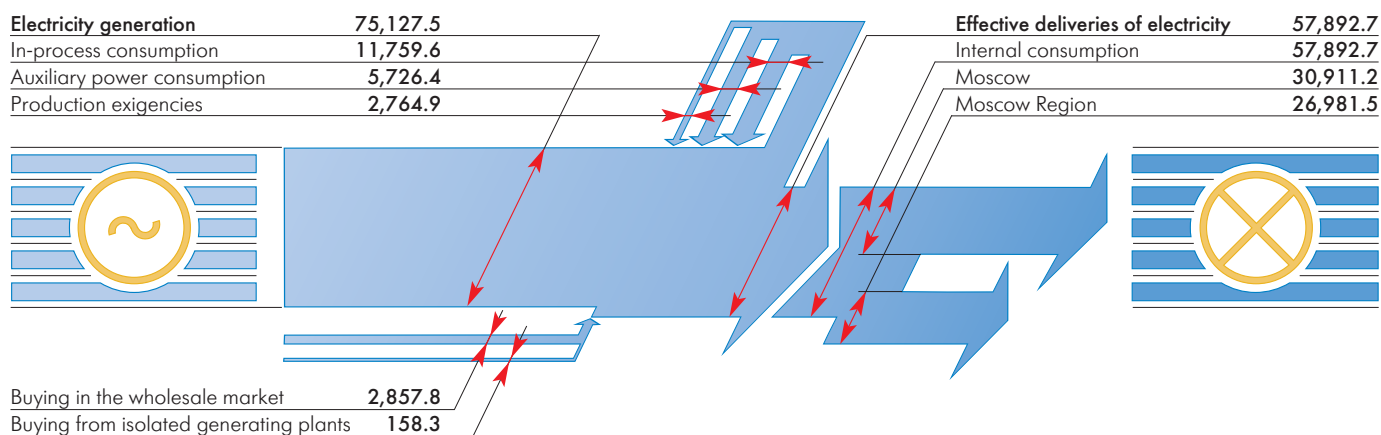
In 2003, MOSENERGO's gross actual losses of electricity amounted to 16.24%, or 11.8 billion kWh, with 72.4 billion kWh supplied to the grids, including the Company's grid losses totaled 15.75%.

■ Pattern of Electricity Consumption, %



Industrial consumers	28.9
Non-industrial consumers	28.5
Households	19.0
Wholesale resellers	14.2
Transport	7.9
Agriculture	1.5

■ Electrical Balance of MOSENERGO in 2003, kWh mln



MOSENERGO's overall 2002 electricity losses in transmission grids under comparable conditions stood at 17.06% of 68.9 billion kWh transmitted, including the Company's grid losses of 16.6%.

The reduction of electricity losses in MOSENERGO's grids under comparable conditions equaled 5.12% while electricity supplies to the grid grew by 5.1% against the 2002 level.

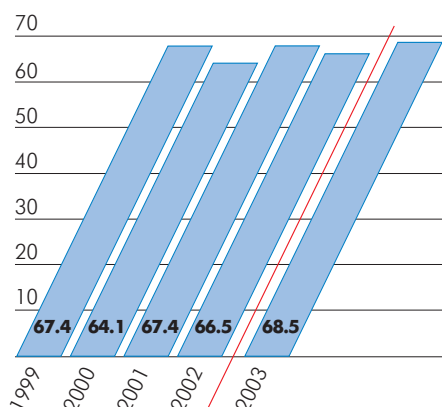
In order to reduce transmission losses in electricity grid branches, idle transformers were turned off, electricity consumption by grid substations for own needs was reduced, and grid facilities were refurbished.

In 2003, Energosbyt and its branches conducted 3,543 inspections resulting in 795.5 million kWh of consumed electricity found to be unreported.

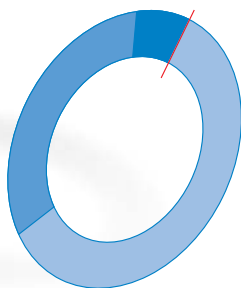
In association with Moscow Cable Grid and grid branches, Energosbyt undertook 865 spot-checks revealing 11.7 million kWh of electricity stolen or non-metered.

Heat Generation and Transmission

■ Effective Deliveries of Heat
Gcal mln



■ Pattern of Heat Consumption, %



Housing organizations	59.2
Other consumers	33.3
Industry	7.5

MOSENERGO is the principal supplier of heat to the Moscow area customers. Moscow consumers receive 94.8% of effective deliveries of heat, and regional consumers receive 5.2%. By the beginning of 2004, consumers' connected heat load reached 31,166 Gcal/h.

In 2003, 73.3 million Gcal of heat were sold from the power plant manifolds. As compared with 2002, heat deliveries grew by 1.1%. Heat deliveries increased in 1Q, 2Q and 3Q due to weather conditions and acceleration of summer repairs of heating grids. An average temperature in 2003 was +5.7°C against +6.2°C in 2002. The length of heating period increased by 6 days (from 208 to 214 days) as heat supply was discontinued at a later date.

Heat consumers utilized 68.5 million Gcal (in steam and hot water), a 3.1% increase year on year owing to a greater consumption by all consumer categories.

The heaviest growth was observed in the public utilities (30.3%), wholesale resellers (10.5%), industry (7.8%), health care, culture and sports (6.7%) and in construction (5.7%).

As compared with 2002 for the system as a whole, heat sales in hot water increased by 3.6%, while in steam reduced by 10.7%.

The process consumption (loss) in heat transmission was 7.27% in 2002, down by 1.75 points against 2002.

In 2003, consumers installed 730 heat metering units, of them 252 in residential buildings. With the total number of subscribers equal 14,442, the number of metering units totals 10,250, i.e. 71% of subscribers are covered.

Capital Construction

MOSENERGO's capex plans are aimed at commissioning of new facilities, replacement of worn-out equipment and its rehabilitation, construction and refurbishment of electrical and heating grids. A special order is issued annually to elaborate on the capex pattern.

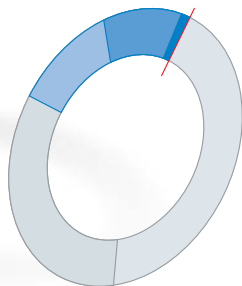
An adjusted investment program for 2003 amounted to RUR 11,736.8 million.

Within the approved volume of investments, RUR 3,350.7 million are allotted for advance payments in connection with purchase of equipment for the 2004 construction projects, for investments in construction of heating grids and cable feeders within the framework of the municipal program for ramshackle dwelling refurbishment, for repayment of EBRD and IFC credits, and for interest payment.

The 2003 capital construction plan was RUR 8,386.1 million. Since the capital construction plan for 2003 was developed in March due to late approval of tariffs, the actual fulfillment made RUR 8,010.6 million, or 95.5%, forasmuch as the 1st quarter saw the work proceeding only at the carry-over projects of 2002.

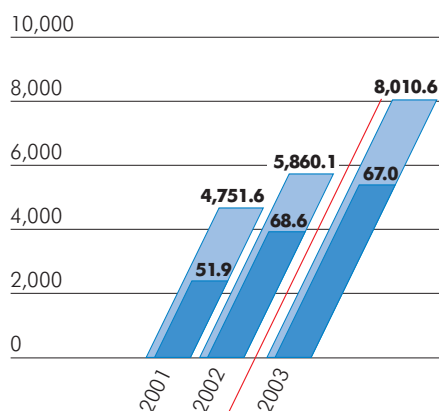
The investment activities of the Company are traditionally oriented to development of the industrial potential of the power utility and provision for absolute reliability of energy supplies to consumers. The past 2003 is no exception. Commissioned fixed assets are RUR 7,335.7 million worth, while in 2002 this figure was equal RUR 4,907.7 million.

■ **Pattern of Capital Investments in 2003**
by Investees, %



Electric grids	42.5
Power plants.....	32.8
Heating Grids	12.7
Other branches.....	10.7
Non-productive construction	1.3

■ **Volume of Capital Investments**



■ Volume of capital investments, RUR mln
■ Incl. for renovation and technical retooling, %

In December 2003, TEP-22 placed in operation a 110 MW turbine-generator set (replacement of turbine No. 8). As a result of the refurbishment, the electric power of the turbine increased by 10%, and the thermal capacity grew by 9.4%. One of the steps of refurbishment was installation of a unique asynchronous air-cooled generator manufactured by OAO Electrosila, St. Petersburg, and designed for the reactive power control in the metropolitan power system.

Installation of a new car dumper at TEP-22 completed. Its design enables complete coal dumping, and the unloading time therewith shortens by 15–20% (up to two minutes per car on average).

Two new electric substations were put into operation: Shukolovo with an installed transformer capacity of 64 thousand kVA and Akademicheskaya with an installed transformer capacity of 2x63 thousand kVA.

The Shukolovo substation will provide a reliable electricity supply to consumers of the Dmitrov District, Moscow Region. It is equipped with microprocessor-based control and protection systems and SF6 circuit breakers as against oil switches, that were used before. Two voltage levels are used at the Shukolovo substation: 6 kV for power supply to the existing consumers and 10 kV for connection of new customers.

The Akademicheskaya substation will supply power to new residential areas at the south-west of Moscow. As distinct from traditional substations, it features much smaller size and distinguished design in line with the modern trends in the urban architecture. The substation is equipped with effective noise control systems, which provide for compliance with the regulatory noise requirements at the adjacent territory.

The Company accomplished a considerable amount of work in renovation and construction of the electricity and heat transmission facilities of MOSENERGO.

Maintenance Efforts

To ensure a reliable and uninterrupted supply of power to consumers, the equipment of power plants and grids should be kept in the state of operational readiness and comply with modern technological requirements. The Company's repair work translates into reliable and economic operations and extended service life of the power system's equipment.

Repairs are performed by MOSENERGO's specialized repair branches, production branches (power plants and grids), and third party contractors.

In 2003, repair expenses totaled RUR 11 bln.

During the 2003 maintenance campaign, great amount of repair, diagnostics, and reliability improvement work was performed on the power stations' thermal and electric equipment.

14 power units, 23 turbines, one hydroturbine, 37 power boilers, and 22 water heaters were repaired on schedule.

Repair improved technical and economic metrics of most boilers and turbines and brought them to the rated values.

As regards the electric equipment, the following work was performed: 20 turbine generators underwent major repairs, 13 generators went through medium repairs.

In 2003, 30 transformers, 6 banks of air circuit breakers and 22 banks of oil circuit breakers went through major repairs. Repair and upgrading operations were carried out on power plant auxiliaries.

Heating Grids completed a lot of work in preparation for the heating season. The heating grids overhaul schedule for 2003 covered 74.22 km of heat conduits (in terms of a double-pipeline system). The actual length of rebuilt grids amounted to 79.16 km. 4,653 damaged and weak points were discovered and fixed, 22 pumping stations were repaired and tried out all-round.

In rebuilding the heating grids, newly designed heating conduits are used: they have PU foam insulation in watertight sheathing and an insulation moisture control system. 10.4 km of such pipelines were laid in 2003.

Replacement of expansion glands with expansion bellows was continued. The year 2003 accounted for installation of 845 bellows.

Introduction of expansion bellows, improvement of the operation level of heating grids made it possible to reduce specific leakage of heating water in 2003 to 1.06 ltr/cu m.h with the standard being 2.5 ltr/cu m.h (1.21 ltr/cu m.h in 2002).

The electricity grids had overhauled 62 substations of 35–500 kV on an all-round basis, repaired 172 air compressors, and performed other routine maintenance.

Along 35-220 kV overhead transmission lines, 152 km of earth wire and 28,190 defective insulators were replaced, 2,223 hectares of the right-of-way land was cleared.

1,725 km of 0.4–10 kV overhead transmission lines and 1015 transformer substations were repaired, 850 km of the right-of-way cleared from sprouting, 1560 6–10 kV cable lines renovated, 685 new transformer substations networked.

7,560 km of wire were replaced at 0.4–10 kV overhead lines (single-wire) and 10,052 pylons.

Moscow Cable Grid in 2003 performed 11,246 repairs of cable lines. The reporting year was the first to see remedial works to be carried out by way of re-laying worn-out portions of cable lines, each 100-200 and more meters long. The year ended with 17.22 km of cables re-laid.

958 distribution and transformer substations were made good.

97 overloaded transformers were replaced without renovation of transformer substations, as well as 60 overloaded transformer substations underwent refurbishment involving replacement of 120 transformers with larger ones.

High-Voltage Cable Grids in the reporting year performed 150 repairs at the 110–220 kV low-pressure oil-filled cable lines, 50 repairs of pilot and low-voltage cables. Three automatic feeders at the high-pressure cable lines were overhauled, and structural elements of manifolds, pits and makeup oil supply stations put in order.

Repair of fuel transport departments equipment of MOSENERGO's power plants, preparation of chemical shop equipment of power plants for operation during the fall and winter seasons, renovation of buildings and structures, heating systems, roofing, glazing and winterization of buildings, upkeep of cooling towers and stacks were performed to defined schedules.

New Equipment and Technologies

The basic means of maintenance and development of MOSENERGO's performance and engineering potential is introduction of new up-to-date equipment and technologies for energy generation and transmission.

Of all efforts put forth in 2003, those will be noted that resulted in a considerable fuel saving. They include introduction of a turbine condenser ball cleaning system at TEP-22, uptake of retrofit high-pressure cylinder control valves at TEP-9 and honeycomb shrouding of the turbine flow section at TEP-16.

In 2003, TEP-17 commissioned a new turbogenerator of the PT-30-8,8 type. A new energy-efficient turbine enabled the power plant to improve its load-sharing flexibility, to provide cost-effective production load, and to reduce startup losses.

The Company also phased in new automated control systems for many industrial processes that offer an opportunity to improve accuracy and reliability of equipment control, to abate operational and repair labor costs, to increase fuel consumption control and metering precision.

Some measures, implemented in 2003, were aimed at reduction of pollutant emissions and discharges. Among them introduction of new premix burners at the water heater of TEP-21, which helped improve fuel combustion processes and subdue hazardous emissions of nitrogen oxides by 10 tons per annum, as well as insertion of a new oil separator at TEP-25 which scales back the quantity of oil products in wastewater by 26 tons per annum.

Mosteplosetenergoremont continued to master practices of foamed polyurethane-insulated tubes and components production for heating grids. The 2003 output totaled 15.5 km of tubes and 917 components.

The electricity grid branches of MOSENERGO continued to place in operation advanced SF6 circuit breakers and transformers, vacuum circuit breakers, self-supporting insulated cables. Many branches apply new equipment diagnostic techniques.

Power Saving

■ MOSENERGO continuously increases its operating efficiency through power-saving effort. The base point lines of the work are as follows:

- implementation of power-saving measures during generation and transmission of electricity and heat (installation of expansion bellows at heating conduits, introduction of heating conduits with foamed polyurethane insulation, introduction of variable-frequency electric drives, optimization of equipment operation modes, and other);
- equipment of electricity and heat market participants with present-day energy metering devices;
- power-related surveying of power plants, electrical and heating grids.

The energy efficiency effort in 2003 yielded in saving of 161.6 million kWh of electricity and 110.4 thousand Gcal of heat. The total saving of fuel and power resources amounted to 111.5 thousand tons of equivalent fuel at the cost of RUR 90.8 million.

In 2003, MOSENERGO took part in seven major exhibitions, dedicated to energy conservation, and that was marked by awarding honorary diplomas. Through this work, MOSENERGO expands the circle of its business partners, potential investors and consumers.

Information Technologies and Telecommunications

One of the main lines of MOSENERGO's activity in advancement of information technologies of business development is web-integration, i.e. introduction of Internet technologies in business processes.

■ MOSENERGO has introduced the following types of Internet technologies:

- traditional off-line technologies (teleconferences, distribution lists) enabling dissemination of information among a large audience within a short time and offering ample opportunities for holding mass discussions and exchange of views;
- website that makes it possible to render round-the-clock information support to MOSENERGO's customers, suppliers and employees, as well as to expeditiously respond to market movements and to adjust the marketing strategy and tactics of the Company;
- electronic document management that enables uniting of the Company's concerns in a single information environment with a centralized control and administration and accelerating data flows (business processes) in the Company;
- e-mail, that provides document routing and exercises functions of data exchange between users.

■ The basic trends in the Internet technologies for the years to come are as follows:

- introduction of the Company's own e-commerce system of the business-to-business class;
- improvement of the data protection system;
- introduction of an electronic funds transfer system.

In 2003, MOSENERGO engaged in development of a corporate electronic filing system to ensure effective access to and storage of a large volume of electronic documents.

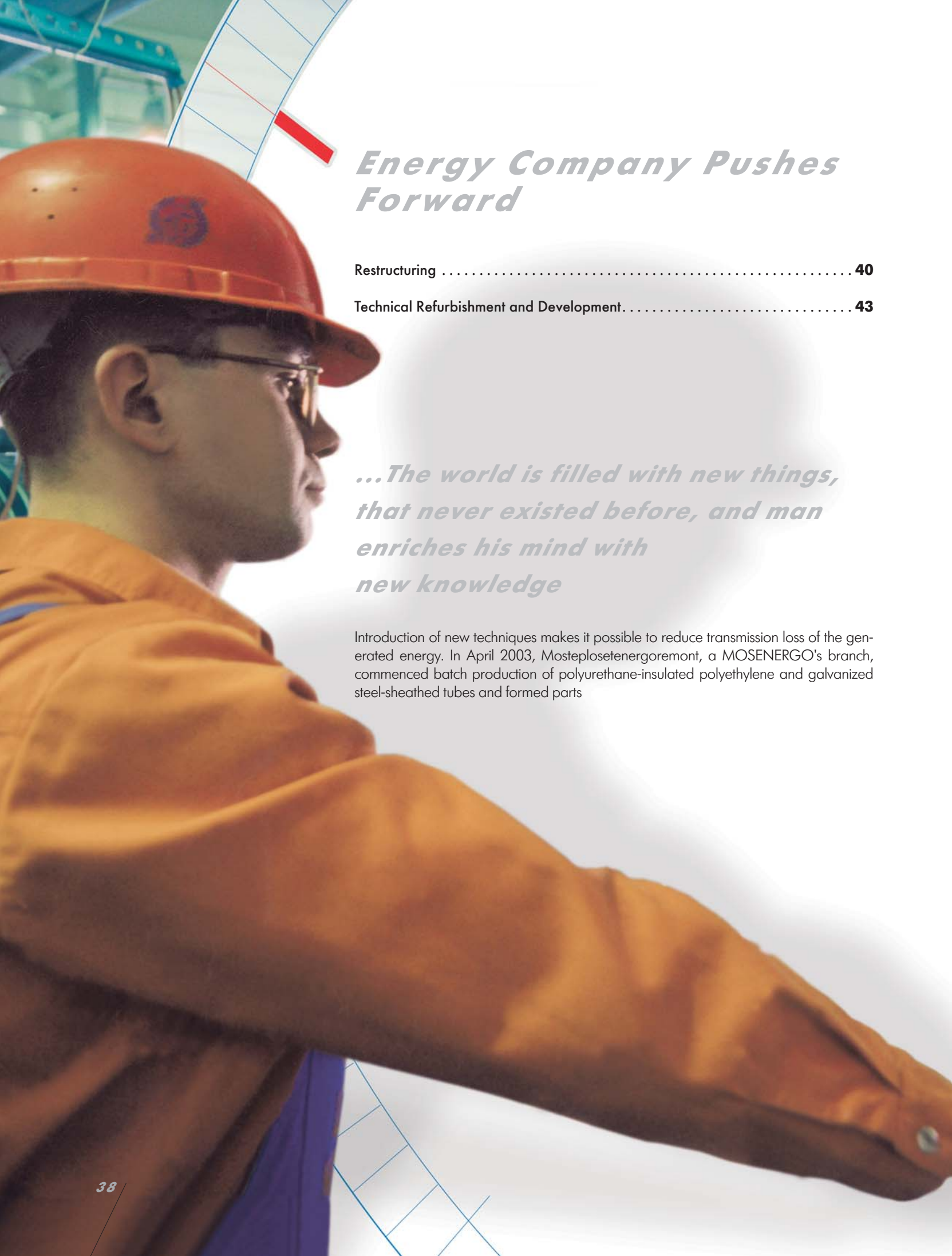
The Company has implemented a start-up complex of MOSENERGO's Data Processing Center, which is created to enhance operational reliability of MOSENERGO's computer systems and networks, including integrity of the corporate database. First servers and trunk routers have been installed. A Concept for a Corporate Information Management System has been developed and approved. Its implementation commenced in 2003. Introduction of such system will provide transparency and optimization of underlying business processes.

In 2003, the power utility continued development and enhancement of dispatching, engineering and administrative control through introduction of state-of-the-art digital telecommunication technologies. The Company placed in operation new digital exchanges in a number of branches, a digital exchange-based dispatcher switch board at the Zagorsk PSP, 10 PLC channels. Installation of a digital exchange at the General Directorate is underway.

The Company commissioned a 62 km long technological control network based on the PLC (Power Line Communications) technology, which provides high-baud-rate data transmission via cable power lines.

Since 2001, MOSENERGO has been a member of PLC Forum, a European association, including 72 companies from 17 countries. In Zelenograd, the Company created a testing ground for try-out of various methods of practical introduction of PLC- technologies.

- The immediate objectives in development of the power utility communications network are assumed as follows:
- construct a digital primary communications network with the priority of construction of FOCL-based power-line carrier backbone networks and radio-relay links;
 - continue development of a communications network of the automated power supply monitoring and control system of the Federal Wholesale Market (FOREM);
 - develop automatic voice and control communication networks with the use of digital switching equipment.



Energy Company Pushes Forward

Restructuring 40

Technical Refurbishment and Development 43

*...The world is filled with new things,
that never existed before, and man
enriches his mind with
new knowledge*

Introduction of new techniques makes it possible to reduce transmission loss of the generated energy. In April 2003, Mosteplosetenergoremont, a MOSENERGO's branch, commenced batch production of polyurethane-insulated polyethylene and galvanized steel-sheathed tubes and formed parts



Restructuring

Reform of Russia's Energy Industry. Major Events of 2003

On February 21, 2003, the State Duma of the Russian Federation Federal Assembly passed a package of six draft laws on restructuring of the electric power industry of the Russian Federation. On March 12, 2003, it was approved by the Federation Council of the RF Federal Assembly, and on March 26, 2003, signed by the RF President.

On May 29, 2003, the Board of Directors of RAO UES of Russia approved the "5+5" Program, a development strategy for the next five years.

On September 5, 2003, the RF Government approved the Energy Strategy of Russia for the period leading up to 2020, a long-term plan of development of the Russian fuel and energy complex in the context of the power sector liberalization with a view to improve its attractiveness to investors.

According to the "5+5" Strategy of RAO UES of Russia and approved plans of AO-Energos restructuring, it is assumed, that AO-Energos will assign their UNEG assets to an ITC in exchange for the ITC shares placed for the purpose.

On September 25, 2003, the Strategy and Restructuring Committee at the Board of Directors of RAO UES of Russia approved the procedure for setting up territorial generation companies (TGC).

In compliance with the RF Government's Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market for the Transitional Period" dated 24.10.2003, electricity trading began in the "5–15%" segment starting with November 01, 2003.

The RF Government's Directive No. 1254r of 01.09.2003 defines the list and composition of wholesale generators of the wholesale electricity market. According to the above Directive four regional power plants of MOSENERGO (LAPS Nos 4, 5, 24 and Zagorsk PSP) are to be integrated respectively in WGCs Nos 1, 4, 6 and 10.

Under the RF Government's Directive No. 1939-R dated 29.12.2003, it was resolved that seven interregional transmission companies should be set up in accordance with the established procedure in the form of public companies with the participation of the Russian State Property Fund (85%) and FGC UES (15%). ITCs are created for the purpose of consolidation of AO-Energos' transmission systems in FGC UES. In keeping with the approved plans of restructuring of AO-Energos, including MOSENERGO, it is assumed, that AO-Energos will assign their UNEG assets to ITC in exchange for ITC shares placed for the purpose. MOSENERGO is supposed to exchange its transmission assets for ITC-Center shares and spin off a Transmission Company, the only asset of which will be shares of ITC-Center.

■ As a result of collaboration with government authorities, in autumn 2003, the Company signed two quadripartite agreements for cooperation in reforming the electric power complex of Moscow and the Moscow Region:

- between RAO UES of Russia, Moscow Government, MOSENERGO and Moscow REC;
- between RAO UES of Russia, Government of the Moscow Region, MOSENERGO and the Energy Commission of the Moscow Region.

According to the above agreements, it is assumed, that after reorganization of MOSENERGO the Moscow and Moscow Region Governments will become entitled to increase their stakes in Moscow Municipal Electricity Distribution Company, Moscow Municipal Heat Distribution Company and Moscow Regional Electricity Distribution Company respectively to 51% and more through reopening of issues of shares.

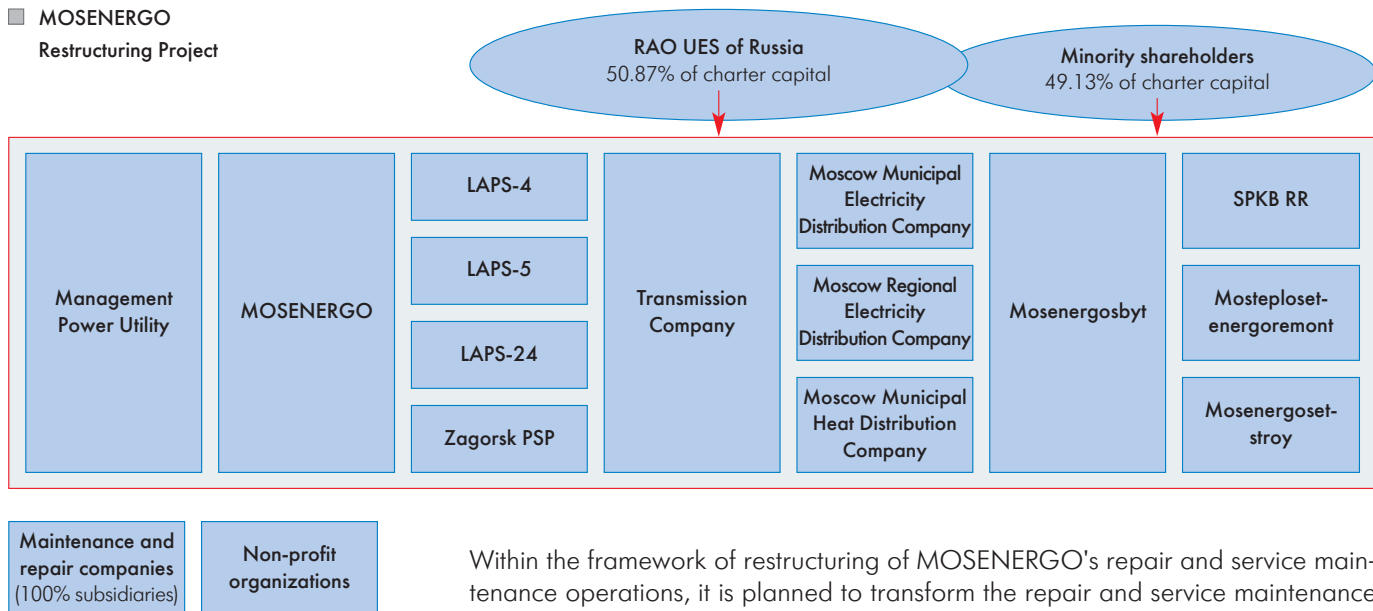
- The MOSENERGO Restructuring Project was approved by:
 - the Executive Board of RAO UES of Russia (22.12.2003);
 - the Working Group for Reviewing Projects of AO-Energos Reform at the RF Government's Commission for Energy Reform (14.01.2004);
 - the RF Government's Commission for Energy Reform (15.01.2004);
 - the Strategy and Restructuring Committee at the Board of Directors of RAO UES of Russia (20.01.2004);
 - by the Board of Directors of RAO UES of Russia (30.01.2004);
 - by the Executive Board of MOSENERGO (01.03.2004);
 - by the Board of Directors of MOSENERGO (04.03.2004).

MOSENERGO Restructuring

The MOSENERGO Restructuring Project originates from the base restructuring option fixed in RAO UESR's "5+5" strategy.

As a result of reorganization, MOSENERGO is supposed to spin off a management company, five generating companies, a transmission company, two electricity distribution companies, a heat distribution company, a electricity supply company and three repair companies.

■ MOSENERGO
Restructuring Project



Within the framework of restructuring of MOSENERGO's repair and service maintenance operations, it is planned to transform the repair and service maintenance branches into ten companies to include the remaining construction, repair and service maintenance assets. Seven of them are expected to become MOSENERGO's wholly-owned subsidiaries, three companies will become wholly-owned subsidiaries of Moscow Regional Electricity Distribution Company.

There are further plans for incorporation of three non-profit organizations with MOSENERGO's part therein.

It is expected that generating assets of 17 power plants will remain in MOSENERGO. The generating assets of LAPS-4, LAPS-5, LAPS-24 will be integrated into wholesale generators, and Zagorsk PSP will become a free-standing WGC.

Transmission Company will be integrated into Interregional Transmission Company of the Center (ITC-Center).

In the course of preparation for reorganization, a separation balance sheet of MOSENERGO will be drawn up.

By the beginning of 2005, new joint stock companies are scheduled to be legally registered with the bodies of state power.

Work with Non-core Assets

The Board of Directors of MOSENERGO passed a resolution to approve a "Register of MOSENERGO's Non-core Assets and an action plan in this regard". The above document, became the base for selling and gratuitous transfer of the Company's non-core assets, as well as for registration of titles to MOSENERGO's non-core assets. The Executive Board of RAO UES of Russia and the Board of Directors of MOSENERGO approved a decision on termination of MOSENERGO's membership in 15 subsidiary and associated companies. During 2003, 41 residential buildings were transferred into the municipal ownership.

Concert with Shareholders, Creditors and Governmental Authorities

During 2003, MOSENERGO's management held meetings with the minority shareholders, including ADR holders, to discuss the main components of the Company restructuring plan. Outside legal advisers and financial counselors held consultations on the restructuring issues with holders of large blocks of MOSENERGO shares, as well as with major MOSENERGO creditors, the European Bank for Reconstruction and Development and International Finance Corporation.

Registration of Titles to Real Estate and Boundary Survey

In 2003, the work on state registration of titles to the Company's real estate continued.

In general, as of January 01, 2004, MOSENERGO registered 23,491 of 29,080 registrable facilities (or 80.8%, including 59.2% in Moscow, and 95.0% in the Moscow Region), which is twice as much as of January 01, 2003.

The Ministry of Property Relations of the Russian Federation approved revised appraisal reports for all MOSENERGO branches.

On September 17, 2003, came into force the revised Federal Law No. 69-FZ "On State Registration of Estate and Transactions in Real Property" of June 09, 2003, which determines, that a mandatory attachment to the documents, required for state registration of estate in real property, is a cadastral plan of the land plot and/or a plan of the immovable property with indication of its cadastral number (Article 17).

The said act of law stipulates the need of boundary surveying and cadastral registration of MOSENERGO's land tenure, which will require extra financial investments.

Technical Refurbishment and Development

To ensure that the power system successfully fulfills its production program and supplies power to customers on a continuous basis, MOSENERGO sees, that the equipment of power plants and grids is always operationally available.

MOSENERGO now operates 50 power boilers at the age of over 40. 28 generators at power plants and more than 600 transformers in electricity grids have been working for over 30 years.

Under the present economic conditions, the best method of replacement of retiring obsolete and worn-out equipment for MOSENERGO is to undertake technical upgrading and renovation. Updated, higher-end equipment, commonly of higher capacity, with improved cost-performance ratio comes in place of the run-down equipment. The equipment control system radically changes, modern microprocessor-based APC systems are installed, and that greatly enhances controllability and operational reliability of the equipment. Simultaneously, accessory equipment is replaced practically in full, and some work is performed to improve the working conditions of the personnel.

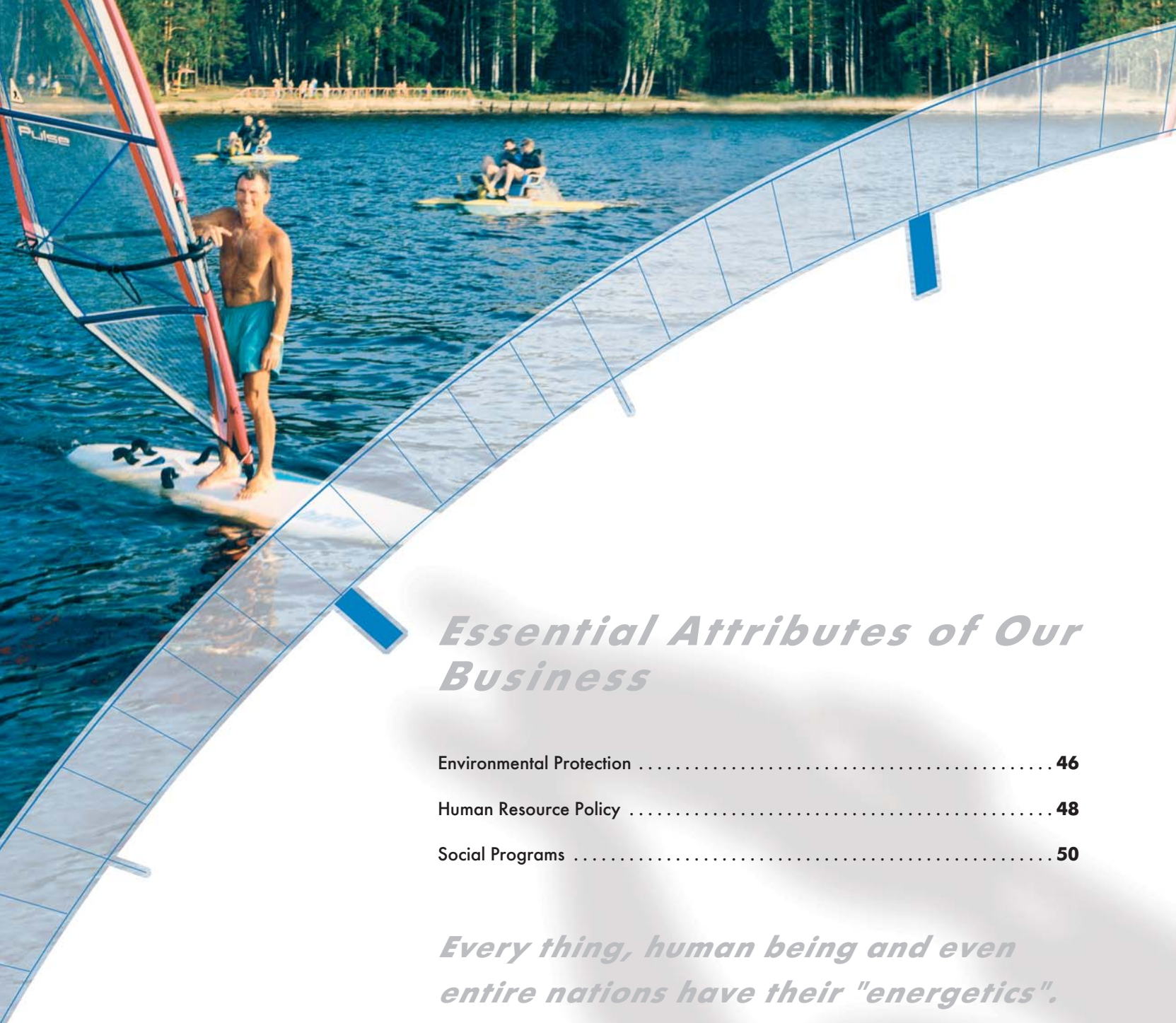
As a result, expenditures 1.5–2 times less, that in case of a new construction, provide good-as-new equipment, dramatic retrenchment of costs of its remedial maintenance, considerable fuel saving, lower risk of emergency situations.

As to near-term plans, for 2004, MOSENERGO contemplates to put into operation 37 MW generating capacity, including to replace turbine No. 29 at TEP-1 with a new one of 12 MW, and to upgrade turbine No. 5 at TEP-20 increasing its capacity from 40 to 65 MW.

In recent years, much attention is paid to introduction of modern cost-effective combined-cycle and gas-turbine technologies in generation of electricity and heat at power plants. The Company has reached an agreement with OAO Power Machines for manufacturing and joint erection at TEP-9 of a 61.5 MW GTE-65 gas turbine plant, equipped with a recovery boiler. Further prospects include introduction of similar plants at TEPs Nos 8, 11, and 12. It was decided, that a PGU-450 unit should be designed at TEP-27 instead of the power generating unit with a T-265 turbine.

Apart from upgrading its generating capacities, the Company now builds new 110–220 kV electric substations to meet the growing electric demand in the Moscow Region.

■ Commissioning and Replacement of Generating Capacities in 2004–2006, MW			
Refurbishment and Technical Upgrade	2004	2005	2006
TEP-1	12		25
LAPS-3		105	
TEP-20	25		
TEP-21		110	
TEP-23			110
New Construction and Capacity Buildup			
LAPS-3 (GTU-TEP)			31
GTU Pavlovsky Posad		8	8
Total commissioned	37	223	174



Essential Attributes of Our Business

Environmental Protection	46
Human Resource Policy	48
Social Programs	50

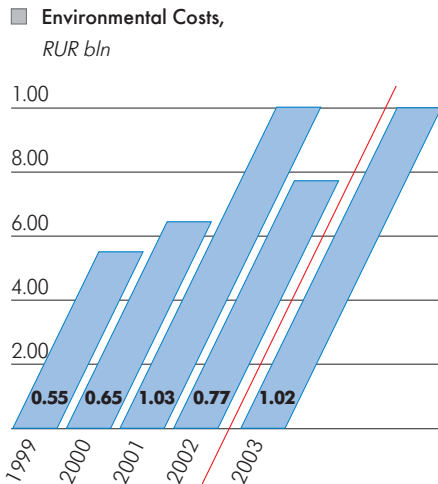
Every thing, human being and even entire nations have their "energetics". "Vigour" is reputed as the most valued human asset

MOSENERGO's team won its first summer Physical Culture Festival, organized by RAO UES of Russia. The competitions took place at the base of the Energetik holiday hotel in Konakovo from July 29 to August 1. The program included four events: track and field athletics, volleyball, tennis and foot-hall



Environmental Protection

Air-Pollution Control



Protecting ecology in the Moscow area is high priority for MOSENERGO whose operations directly affect the environment.

Notwithstanding that motor vehicles account for most (over 85%) pollutant emissions in the Moscow atmosphere, minimization of the industry's "contribution" to contamination of the living environment remains the prime objective. The share of power engineering enterprises is about 5% of all emissions in the city atmosphere.

Predominance of clean fuel, natural gas, (92.5%) in the Company's fuel mix enables mitigation of the environmental impact of generation processes to the utmost.

In order to maintain a stable environmental situation in the Moscow area, MOSENERGO pursues a long-term environmental program approved by the Government of Moscow for the period of 1993 through 2010.

The Company has been also implementing a package of its own environment protection measures for many years. It is no coincidence that MOSENERGO had chosen the words: "Towards light, warmth and Friendly environment!" as its motto.

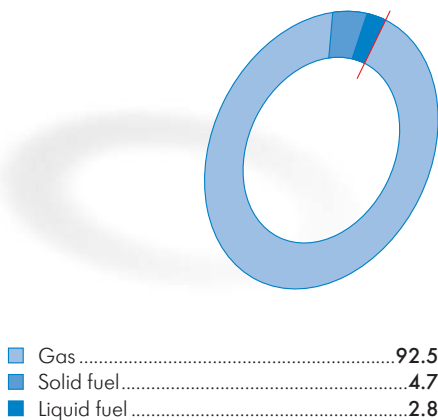
In 2003, MOSENERGO operated without exceeding environmental standards. More importantly, the Company achieved a reduction of pollutant emissions in respect of a number of indicators as compared with 2002. The volume of solid emissions by MOSENERGO's power plants reduced by 15.2%, and that of nitrogen oxides by 1.6%. At the same time, weather conditions and trends in change of the load level in the power system in 2003 caused alteration of the fuel balance towards increasing consumption of fuel oil as compared with 2002. For this reason, as well as due to higher sulfur content of fuel oil, sulfur dioxide emissions climbed 15.0%, yet that value is also within the regulatory limit.

The established standards for maximum permissible and temporarily approved emissions were observed by all power plants of the power system in 2003 for all ingredients.

■ In 2003, in accordance with the approved work plans, including within the framework of the program approved by the Moscow Government, the Company accomplished the primary environment protection measures enabling emission reduction as follows:

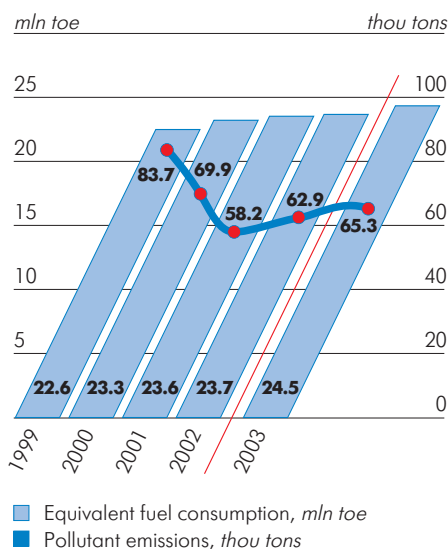
- refurbishment of boiler No. 11 at TEP-22 (phase I) — 1080 tons of NO_x per annum;
- introduction of secondary blowing at boiler No. 4 of TEP-25 — 200 tons of NO_x per annum;
- introduction of low-toxic oil-gas burners at boilers Nos 12, 13 and 14 of TEP-21 and at boiler No. 6 of LAPS-4 — 130 tons of NO_x per annum;
- enhancement of efficiency of electrostatic precipitators at boilers No. 8 of TEP-22 and No. 3 of TEP-17 — 900 tons of coal ash per annum;
- introduction of 15 stationary emission monitoring devices at 9 power plants — 50 tons of NO_x per annum;
- introduction of the cavitation technology and upgrading the existing setup of liquid fuel treatment, storage and burning at boilers No. 16 of TEP-8, No. 6 of TEP-23, No. 4 of TEP-25 and No. 7 of TEP-26 — 65 tons of NO_x per annum;
- introduction of noise suppressors at peak water boiler No. 3 of TEP-1, start-up line of TEP-9, at the compressor station of TEP-12, downstream smoke exhausters of boiler No. 8 of TEP-23 and boiler No. 6 of TEP-26.

■ Pattern of Fuel Consumption
in 2003, %



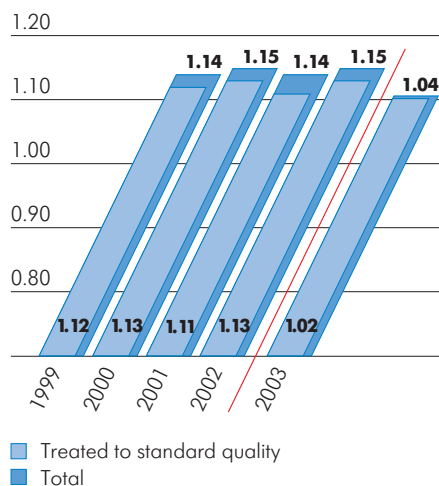
Water-Pollution Control

■ Equivalent Fuel Consumption
and Pollutant Emissions by Moscow CHP Plants*



*Including TEP-22

■ Wastewater Discharge, bln cu m/year



The issues of reducing water consumption and recycling of water are continuously on the power utility's agenda. 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.

Within the framework of water protection measures in the area, water consumption by the power system in 2003 reduced by 88 million cu m versus 2002, including by 33 million cu m in Moscow.

The Company consumed 7.9 million cu m of drinking water for industrial needs, of them 6.0 million cu m in Moscow, a 0.5 million cu m reduction versus 2002.

■ Our branches put into effect the basic measures to cut water consumption and water discharge, improve the quality of wastewater and the operating efficiency of wastewater treatment systems as follows:

- refurbishment and setup of the makeup demineralizer and regenerative air heater wastewater neutralization system utilizing the cavitation technology at LAPS-5, TEPs Nos 9, 23 and 26 — reduction of discharge by 185 tons per annum;
- introduction of oily water treatment process, at 9 TEPs and at the RETO works - reduction of discharge by 390 tons per annum;
- introduction of water traps at two cooling towers of TEPs Nos 16 and 20 — reduction of drift loss to 0.05%;
- installation of garage washing units and storm drain treatment facilities at LAPS-4, TEP-23, at the RETO works, in Vostochniye Electrical Grids (substation 212) and Moscow Cable Grid (motor transport columns Nos 1 and 2) — termination of discharge of 1000 cu m of foul water per annum;
- refurbishment of cavitation fish and garbage protection systems at TEPs Nos 1, 9, 12 and 20 — protection of 80% of juvenile fish with the standard being 70%;
- equipment of large manifolds and discharge outlets to the River of Moscow at TEPs Nos 1, 12, 22 and 26 with wastewater quality control devices and flow meters.

MOSENERGO also works on development and approval of regulatory maximum allowable limits for emissions and discharges, rates of water consumption and sewage flow, obtaining of licenses for environmental activity and permits for waste disposal.

The environmental issues in the Company are handled in accordance with the Russian law and in concert with governmental authorities regulating environmental activities of the Moscow area enterprises.

Human Resource Policy

The human resource policy of the Company is aimed at staffing the production with highly-qualified personnel capable of coping with a wide range of tasks. As of January 1, 2004, MOSENERGO employed 47,596 persons (47,801 as at the beginning of 2003). The proportion of women is 32.2%.

During the year, the number of the power utility's employees reduced by 205 persons, including: 557 manual workers, 34 office workers. The number of experts and managers increased by 386. Reduction of total employment in the power system is connected with the efforts to optimize the Company's organizational framework and staffing level.

The age-related parameters of MOSENERGO personnel in 2003 remained approximately at the level of past years: 30.6% of employees are above 50, including experts above 50 make 30.3% and managers — 30.3%.

The same trend is observed among manual workers.

The education level of MOSENERGO's workforce is maintained fairly high. For the last five years, the number of employees with higher education has increased from 11,421 to 11,630 and the number of those with a candidate of science degree has grown from 107 to 124.

This is due to the situation in the sector's labor market in the Moscow area and the Company's effort to improve personnel practices and the educational level of its employees.

In 2003, MOSENERGO hired 114 young skills with higher education, 99 persons with secondary specialized education and 51 graduates of MOSENERGO Technical College.

The effort to stabilize the teams and retain skills is high on the agenda of MOSENERGO's human resources departments.

■ The Company's strategy will focus on the following human resources development areas:

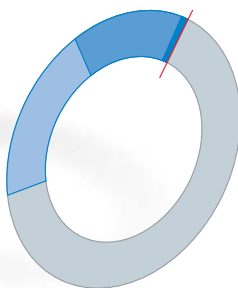
- manning the production with employees of required skills and qualification, further improvement of personnel age-related parameters;
- education, training and professional development of the personnel, training of a managing staff pool;
- ensuring conditions that provide incentives for employees in their work, focusing on social aspects in the work with human resources, and protection of their interests;
- attaching more importance to the role played by professional psychologists in the work with the personnel;
- every kind of strengthening the labor and production discipline, and increase of property accountability and economic responsibility of the personnel.

In 2003, MOSENERGO trained, retrained and provided a second job training for 1,523 workers. 21,910 workers and 12,466 engineers and technicians improved their qualifications.

9,344 persons had centralized off-site training, including 6,226 persons at the Moscow Personnel Training Center.

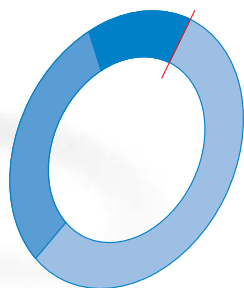
Specialists are continuously educated at advanced vocational training institutes and other educational establishments that have respective licenses and accreditation. A total of 3,118 persons were educated at outside educational establishments.

■ Human Resources Structure
(as of January 01, 2004)



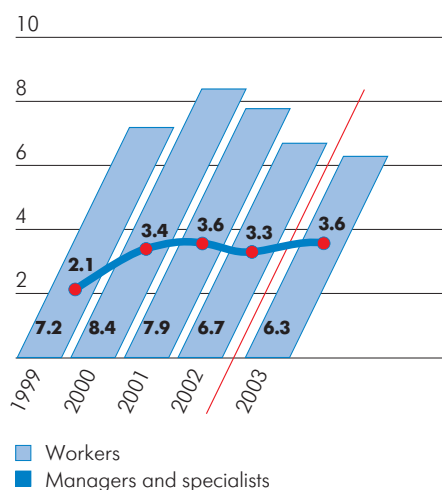
	pers.	%
Workers	30,586	64.3
Specialists	9,415	19.8
Managers	7,187	15.1
Office workers	408	0.8

■ Employee Age Structure



	pers.	%
30 to 50 years old.....	26,197	55.1
Above 50	14,587	30.6
Under 30	6,812	14.3

■ Turnover of Personnel, %



MOSENERGO cooperates actively with the Moscow Energy Institute, the State Management Institute, the Moscow State Open University and other higher educational establishments of Moscow in the area of personnel training, retraining and education.

In 2003, 44 young skills graduated from higher educational establishments under agreements with MOSENERGO, received a higher education degree and were sent for work to the power utility's branches.

Much attention is paid by the Company to labor protection issues. As a prevention of on-the-job accidents, the power utility holds a single Safety Day during which work safety conditions are inspected at workplaces. Before the 2003 repair campaign, all heads of the maintenance personnel of electricity grid branches and power plants received training under special programs.

Pursuant to the effective labor protection legislation, MOSENERGO is conducting certifications of workplaces for labor conditions. By end-2003, certification of 32,906 workplaces was completed at 60 branches, which approximately equals to 90% of all workplaces at the power utility.

■ To prevent electrical accidents, the personnel is provided with special clothing and other means of protection:

- all electrical technicians engaged in switching and repair of electric installations are provided with heat-resistant suits protecting against the impact of electric arc;
- all operating personnel of electricity grid branches are provided with personal Kristall helmet-mounted voltage alarms and warning lanterns;
- branches were equipped with Kristall-S stationary voltage alarms;
- all vehicles of the repair and mobile emergency crews of electricity grid branches are equipped with sets of rods for grounding wires of 6–10 kV overhead lines directly from the ground without climbing pylons.

Two MOSENERGO branches, SKTB VKT and RETO works, had developed and mastered production of two new voltage indicators unparalleled in the domestic and foreign practice. They are a Signal unit for 6–10 kV electric installations, the distinguishing feature of which is a provision for separate indication of operating and induced voltage on the monitored live parts, and a 6–35M high-voltage indicator with continuous automatic failure monitoring, indispensable while working at split-conductor overhead lines.

As a result of well-planned labor protection and accident rate reduction efforts, general accident frequency rate at MOSENERGO has reduced threefold for the last 5 years, from 30 accidents in 1999 to 11 accidents in 2003. The rate of fatal accidents also dropped threefold (to 1 case).

The frequency rate (Kf) of general accidents (number of injuries per thousand workers) for MOSENERGO stood at 0.23 with the industry average of 0.72; the frequency rate of fatal accidents (Kf.fat.) made 0.021 with the industry average for RAO UES of Russia being 0.105.

In 2003, the power utility had worked without accidents for four months. 52 branches out of 61 operated accident-free.

Social Programs

The principled position of MOSENERGO is that the Company's power is not only in production capacities. The Company'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. An integral part of MOSENERGO's social policy is improvement of social indicators of the well-being of the Company's employees and their family members.

- The social policy is primarily aimed to:
 - improve the system of benefits to motivate employees;
 - improve work environment and opportunities for recreation, medical services, develop sports and amateur art activities;
 - improve the housing policy;
 - improve candidacy selection process to fill the existing vacancies.

In 2003, MOSENERGO satisfied the Tariff Agreement. Wages were paid when due in accordance with MOSENERGO's Tariff Agreement and Collective Agreements of branches.

In view of inflation process and in order to perform the Tariff Agreement, the tariff rates in 2003 were increased. The average monthly wages of all personnel in 2003 grew by 25.3% over 2002 to equal RUR 15,180.

A component part of MOSENERGO's social policy is clinical work and preventive measures carried out by the medical section equipped with modern medical equipment. The medical section priorities are disease prevention and early detection. In 2003, 17,203 employees of the Company were subject to preclinical research.

As of the beginning of 2003, MOSENERGO's 9 branches maintained 14 kindergartens on their balance sheets, and 6 branches have recreational camps for 1,266 persons.

Pursuant to the sector's program for 2003, well-directed efforts were taken to arrange for child recreational process. 2,492 children had a rest at recreational camps during the summer holidays.

There are 4 preventive health centers for 284 persons, 6 cultural centers and 3 stadiums.

In 2003, 3,042 persons received sanatorium and health resort treatment.

Pursuant to the sector's tariff agreement, MOSENERGO provides mandatory social insurance of all employees against accidents plus medical insurance. Agreements with Guta-Insurance (against accidents) and Health and Life, a Moscow branch of Energogarant Insurance Company, (medical insurance) were concluded and are effective.

The Company always takes care of the 1941–1945 Great Patriotic War veterans and of retired pensioners of the Company, providing them with appropriate benefits and paying an additional non-state pension from the MOSENERGO's Non-state Pension Fund.

In 2003, MOSENERGO successfully held the VIII all-in Olympics among its branches, 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.

Organization of leisure time of workers of the power industry and their children is facilitated by 23 musical and vocal, 9 orchestrics, 4 theatrical creative associations and 3 circles of applied art created on the basis of clubs in the Company branches.

Members of amateur talent groups of the branches took part not only in festive and anniversary concerts for workers of the power industry, regional and international contests of amateur art, but also in charitable acts of the Peace Foundation, Culture Foundation, Central Artworkers Club, Slovak Cultural Center.



Corporate Governance

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***It is energy, not gold, that supports
industries, underpins national currencies,
and defines political interests.
Energy has become a universal
metaphor***

On May 30, 2003, MOSENERGO held its ordinary General Meeting of Shareholders, the supreme body of governance and supervision. The Shareholders' Meeting approved the Company's annual report, profit and loss statement, distribution of 2002 profits, and the 2002 dividend rate



Principles of Corporate Governance

MOSENERGO is managed based on the requirements of the Code of Corporate Conduct, approved by the Federal Commission for Securities Market of Russia on April 5, 2002.

The supreme governing body of the Company is the general meeting of shareholders. The general operating control over the Company is exercised by the Board of Directors. The executive management bodies are the Executive Board and General Director of MOSENERGO.

- The main principles of corporate governance according to the Company are:
 - protection of shareholder and investor rights;
 - transparency and availability of information;
 - examination and assessment of the quality of management practices.
- The protection of the rights of shareholders and investors is attained by:
 - registration of share ownership;
 - keeping and safe custody of the Company's share register pursuant to Articles 44, 45, 46 of the RF Federal Law "On Joint Stock Companies";
 - 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 complete and true information about the Company regularly and in time pursuant to Articles 90 and 91 of the RF Federal Law "On Joint Stock Companies";
 - an opportunity to supervise the Company management bodies in the course of its restructuring.
- The transparency and availability of information are secured by:
 - the right to receive information about preparation and holding of general meetings of shareholders;
 - publication of annual reports for shareholders;
 - preparation and submission to RAO UES of Russia of annual statements on economic operations of MOSENERGO;
 - preparation and submission to RAO UES of Russia of periodic reports on individual aspects of MOSENERGO's business, as well as reports and other information provided on shareholders' request;
 - holding conferences with investment analysts, briefings, as well as through participation in conferences, exhibitions and TV programs;
 - placement of information at the Company's web site, in the Herald of MOSENERGO journal and the mass media.

The quality of the Company's business management is controlled and assessed by the Board of Directors, Executive Board, General Director, Audit Commission of MOSENERGO and an external auditor.

Shareholders' Meeting





An Annual General Meeting of MOSENERGO's Shareholders was held on May 30, 2003, to discuss the results of the Company's performance in 2002. The Shareholders' Meeting approved the Company's annual report, profit and loss account, based on the financial year results, distribution of 2002 profits, approved the 2002 dividend at the rate of RUR 0.01837 per ordinary share of the Company.




The General Meeting of Shareholders approved redrafted versions of the Rules for Payment of Remuneration and Compensations to the Members of the Board of Directors and the Procedure for Preparation and Holding of General Meeting of the Company Shareholders, elected the Board of Directors and the Audit Commission of the Company.

The General Meeting of Shareholders made amendments and addenda to the Company's Charter. Introduction of amendments and addenda to the Company's Charter stemmed from the need to bring MOSENERGO's Charter in compliance with the requirements of the Federal Law "On Joint Stock Companies" effective as of 31.10.2002, Resolution No. 17/ps of the Federal Commission for Securities Market of Russia, dated 31.05.2002 "On Approval of the Enactment of Additional Requirements to the Procedure for Preparation, Convocation and Holding of General Meeting of Shareholders", and Resolution No. 138 of the Board of Directors of RAO UES of Russia, dated 28.02.2003.

Board of Directors

Members of the Board of Directors

Full name / year of birth / education / nationality / date of first election to the Board of Directors	Offices, held as at the date of election	Offices, held during the last 5 years / shareholding in the Company, %
1	2	3
 <p>Anatoly Yakovlevich Kopsov 1942 / higher / Russia / 22.04.1996</p>	<p>Chairman of the Board of Directors, MOSENERGO; Director for Construction of Generation Facilities, RAO UES of Russia; member of the Board of Directors, OAO Mosenergomontazh, OAO Bureyskaya HPP, OAO Kaliningrad TEP-2, OAO Sochi CHP Plant, OAO Podolsk Engineering Works</p>	<p>Chairman of the Board of Directors, MOSENERGO; Director for Construction of Generation Facilities, RAO UES of Russia; Adviser to the Chairman of the Executive Board, RAO UES of Russia; deputy Chairman of the Executive Board, RAO UES of Russia; Head of the Department for Regional Subsidiaries (AO-Energos) / 0.0015 %</p>
 <p>Aleksey Feliksovich Bodunkov 1966 / higher / Russia / 30.05.2003</p>	<p>Minister of Property Relations, the Moscow Region Government</p>	<p>First Deputy Minister of Property Relations, Moscow Region Government; Deputy Chief, Department for Support of the Moscow Government Office; Deputy Minister of the Moscow Region Government — Deputy Chief of Staff of the Moscow Region Government, Superintendent Examiner — Deputy General Director, ZAO Regional Pledge Company / Holds no shares</p>
 <p>Dmitry Valerievich Vasiliev 1961 / higher / Russia / 30.05.2003</p>	<p>First Deputy General Director — Managing Director for Corporate Policies and Property Management, MOSENERGO; Chairman of the Board of Directors, OAO Transformator; member of the Board of Directors, Agropromcredit Commercial Bank; member of the Board of bank, Transinvestbank Commercial Bank Limited; Chairman of the Board of Directors, ZAO Energoinvest-ME</p>	<p>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"; Chairman of the Federal Commission for Securities Market (FCSM of Russia) / Holds no shares</p>
 <p>Igor Timofeyevich Goryunov 1937 / higher / Russia / 22.04.1996</p>	<p>First Deputy General Director — Chief Engineer, MOSENERGO</p>	<p>First Deputy General Director — Chief Engineer, MOSENERGO / Holds no shares</p>

1	2	3
 <p>Arkady Vyacheslavovich Yevstafiev 1960 / higher / Russia / 30.05.2002</p>	<p>Chairman of the Executive Board, MOS-ENERGO; General Director, MOSENERGO; Chairman of the Board of bank, Transinvestbank Commercial Bank Limited; member of the Board of Directors, ZAO Energoinvest-ME</p>	<p>Acting General Director; Deputy General Director for Relations with Bodies of State Administration and Mass Media; Authorized Representative of General Director, MOSENERGO; General Director, Nonprofit Foundation Private Property Protection Center / Holds no shares</p>
 <p>Artem Vladislavovich Kuznetsov 1967 / higher / Russia / 30.05.2003</p>	<p>President, NP GUTA Group</p>	<p>Vice-Chairman; First Deputy Chairman, Public Investment Corporation / Holds no shares</p>
 <p>Boris Vasilyevich Nikolsky 1937 / higher / Russia / 25.04.1994</p>	<p>Member of the Federation Council, Federal Assembly of the Russian Federation</p>	<p>First Deputy Prime Minister, Moscow City Government / Holds no shares</p>
<p>Vladimir Yurievich Platonov 1959 / higher / Russia / 30.05.2002</p>	<p>Deputy Chairman of the Executive Board, RAO UES of Russia</p>	<p>Deputy Chairman of the Executive Board, RAO UES of Russia / Holds no shares</p>
 <p>Andrey Natanovich Rappoport 1963 / higher / Russia / 30.05.2003</p>	<p>Deputy Chairman of the Executive Board, RAO UES of Russia; Chairman of the Executive Board, OAO UES FGC, member of the Board of Directors, OAO UES FGC; Chairman of the Board of Directors, OAO Volgogradenergo, ZAO INTER RAO UES, OAO Orenburgenergo, OAO Tomskenergo, member of the Board of Directors, OAO UES SO-CDU, OAO Tyumenenergo, REN TV Media-Holding Limited, member of the Supervisory Board, AO GruzRosenergo IPS</p>	<p>Deputy Chairman of the Executive Board, RAO UES of Russia / Holds no shares</p>

1	2	3
 <p>Alexander Anatolievich Savin 1969 / higher/ Russia / 30.05.2003</p>	<p>Director, Investment Banking Department, Renaissance Capital Investment Group</p>	<p>Manager, Bain & Co / Holds no shares</p>
 <p>Pavel Stepanovich Smirnov 1952 / higher/ Russia / 18.05.2001</p>	<p>Member of the Executive Board, RAO UES of Russia; member of the Board of Directors, OAO Bashkirenergo, OAO Bashkir Transmission Company; Chairman of the Board of Directors, OAO ENIN</p>	<p>Director, Department for International Financial and Economic Relations, Bank of Russia / Holds no shares</p>
 <p>Thornber Edgar Hodson 1941 / higher/ USA / 30.05.2003</p>	<p>Managing Director, Investment Banking Department, Renaissance Capital Investment Group</p>	<p>Managing Partner, Arthur Andersen Consulting / Holds no shares</p>
 <p>Alexander Vasilievich Chikunov 1963 / higher/ Russia / 30.05.2003</p>	<p>Head of the Center for Implementation of AO-Energo Restructuring Projects, RAO UES of Russia; member of the Board of Directors, OAO Ryazanenergo</p>	<p>First Deputy General Director, Head of the Investment Development Center; Business Consultant, Siberian Technologies Management Company Limited; Director, Interregional Debt Center Limited / Holds no shares</p>

Report of the Board of Directors

In 2003, the composition of the Board of Directors of MOSENERGO changed greatly. As a result of elections of the members of the Board of Directors at the Annual General Meeting of Shareholders on May 30, 2003, A. A. Vagner, P. A. Yefanov, A. V. Matveyev, O. B. Oksuzyan, V. I. Reshetov, P. M. Teplukhin and A. A. Chabak vacated their offices.

Seven new members were elected to the Board of Directors: A.F. Bodunkov, Minister of Property Relations, the Moscow Region Government; D.V. Vasiliev, First Deputy

General Director — Managing Director for Corporate Policies and Property Management, MOSENERGO; A.V. Kuznetsov, President of NP GUTA Group; A.N. Rappoport, Deputy Chairman of the Executive Board, RAO UES of Russia, General Director of the Federal Grid Company; A. A. Savin, Director, Investment Banking Department, Renaissance Capital Investment Group; H. Thornber, Managing Director, Investment Banking Department, Renaissance Capital Investment Group; A. V. Chikunov, Head of the Center for Implementation of AO-Energo Restructuring Projects.

Thus, 30% of the existing members of the Board of Directors are independent directors representing the interests of the minority shareholders.

The first meeting of the new Board of Directors unanimously elected A. Ya. Kopsov, Director for Construction of Generation Facilities, RAO UES of Russia, as its Chairman.

As in the previous years, the Board of Directors at its meetings regularly discussed issues of current production and financial operations of the Company. The General Director reported the Company's operational results to the Board of Directors on a quarterly basis. Issues of preparedness for autumn and winter peaks, building of requisite stocks of fuel, as well as matters of financial stability of the Company stood separately on the agenda.

The points of first priority in the work of the Board of Directors in the reporting year were the issues of MOSENERGO restructuring.

- The key decisions of the Board of Directors in this respect are the following:
- approval of agreements for cooperation in reforming the electric power complex of Moscow and the Moscow Region;
 - approval of the Register of MOSENERGO's Non-core Assets and an action plan in this regard;
 - a decision on reforming the existing electricity transmission system of MOSENERGO by way of establishment of a new Company's branch, Electrical Transmission Grid, and splitting up the electricity transmission system between the Federal Grid Company and MOSENERGO.

On October 9, 2003, the Board of Directors passed a resolution according to which A. G. Uzilevsky, Deputy General Director for General Affairs, was removed from the Executive Board of MOSENERGO and replaced by V. S. Chistyakov, Deputy General Director for Fuel Supply and Complete Equipment.

Pursuant to the Statute on Payment of Remuneration and Compensations to Members of the Board of Directors, each member of the Board of Directors received a remuneration at the rate of three minimum wages of a first class worker (approximately RUR 5,500) for the participation in the meetings.

As consistent with the above Statute and based on the 2003 work results, after an ordinary general meeting the members of the Board of Directors will receive remuneration subject to the number of meetings attended thereby.

The total amount of remuneration paid to the members of the Board of Directors for the year 2003 is RUR 1,655,520. In keeping with the resolution of the General Meeting of Shareholders, the members of the Board of Directors will also receive a fee based on the balance of the 2002 work in the amount of RUR 2,593,492.

All activities of the Board of Directors in the reporting year became more transparent for shareholders as the key decisions adopted at the meetings of the Board of Directors were regularly placed on MOSENERGO's website.

Member of the Board of Directors	Number of walk-in meetings of the Board of Directors, that could be attended by the director	Number of walk-in meetings of the Board of Directors, actually attended by the director	Amount of remuneration, paid to the director in 2003, RUR
A. Ya. Kopsov	11	11	265,680
A. A. Vagner	5	4	50,640
I. T. Goryunov	11	11	161,280
A. V. Yevstafiev	11	10	145,440
P. A. Yefanov*	5	1	—
A. V. Matveyev	5	4	35,520
B. V. Nikolsky*	11	6	—
O. B. Oksuzyan	5	4	50,880
V. Yu. Platonov	11	2	21,120
V. I. Reshetov	5	5	60,960
P. S. Smirnov	11	10	161,280
P. M. Teplukhin	5	5	60,960
A. A. Chabak	5	5	60,960
A. F. Bodunkov*	6	6	—
D. V. Vasiliev	6	5	100,320
A. V. Kuznetsov	6	4	84,480
A. N. Rappoport	6	4	89,760
A. A. Savin	6	5	100,320
Thornber Hodson	6	5	100,320
A. V. Chikunov	6	6	105,600

* Civil servants

Audit Commission

Members of the Audit Commission

Full name / year of birth / education	Offices, held as at the date of election	Offices, held during the last 5 years
1	2	3
Oleg Viktorovich Zabrodin 1960 / higher	Deputy Chief Accountant for Audits, MOSENERGO	Deputy Chief Accountant, MOSENERGO
Danil Nikolayevich Nikitin 1972 / higher	First Deputy Head of the Corporate Policies Department, RAO UES of Russia	First Deputy Head of the Corporate Policies Department, RAO UES of Russia; First Deputy Head of the Section, Corporate Policies Department, RAO UES of Russia
Yelena Yevgenievna Smirnova 1976 / higher	Deputy General Director for Economics, ZAO Transenergo	Advisor on Audit Commissions to Centr- energo, a Representative Office of RAO UES of Russia; Deputy Chief Accountant, "Anikom A" Limited Company; Chief Accountant, "Za Rulem" ("At the Wheel") Limited Company
Sergey Borisovich Sidorov 1952 / higher	Head of the Financial Audit Department, RAO UES of Russia	Head of the Financial Audit Department, RAO UES of Russia
Grigory Fedorovich Shevchenko 1948 / higher	Head of the Planning and Economy Department, Deputy Director for General Affairs, TEP-21, a MOSENERGO branch	Head of the Planning and Economy Department, Deputy Director for General Affairs, TEP-21, a MOSENERGO branch

Audit Commission Report

The Audit Commission of MOSENERGO, Open Joint Stock Company for Energy and Electrification, elected by the General Meeting of Shareholders on May 30, 2003, is a standing organ of internal audit of the Company, independent of any officers of the Company's management bodies and executives. The Audit Commission abides in its activities by the powers, stipulated by the Federal Law "On Joint Stock Companies" and the Company's Charter.

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 a documentary verification (audit) of the financial and economic activities of MOSENERGO in 2003.

Based on the auditing results, the Audit Commission drew up its Opinion, which confirms the authenticity of data, contained in the Company's statements and other financial documents for the year 2003. Copies of the Opinion were sent to the Board of Directors and General Director of the Company.

The size of and procedure for payment of all remunerations and compensations to the members of the Company's Audit Commission are established by the Rules for Payment of Remuneration and Compensations to the Members of MOSENERGO's Audit Commission, approved by the Annual General Meeting of the Company Shareholders on May 30, 2002.

The total amount of remuneration, paid by the Company to the members of MOSENERGO's Audit Commission for the year 2003, was RUR 362,160.

Executive Board

Members of the Executive Board

Full name year of birth /education / nationality	Position	Offices, held during the last 5 years / shareholding in the Company, %
1	2	3
Arkady Vyacheslavovich Yevstafiev 1960 / higher/ Russia	Chairman of the Executive Board, MOSENERGO; member of the Board of Directors, MOSENERGO; General Director, MOSENERGO	Acting General Director; Deputy General Director for Relations with Bodies of State Administration and Mass Media; Authorized Representative of General Director, MOSENERGO; General Director, Nonprofit Foundation Private Property Protection Center / Holds no shares
Urusbiy Agubekirovich Balikoyev 1933 / undergraduate, vocational / Russia	Director of Heating Grids, a MOSENERGO branch	Director of Heating Grids, a MOSENERGO branch / Holds no shares
Aleksandr Mikhailovich Boyar 1946 / higher/ Russia	Director of Mozhaiskiye Electrical Grids, a MOSENERGO branch	Director of Mozhaiskiye Electrical Grids, a MOSENERGO branch / 0.007 %

1	2	3
Dmitry Valerievich Vasiliev 1961 / higher/ Russia	Member of the Board of Directors, MOSENERGO, First Deputy General Director — Managing Director for Corporate Policies and Property Management, MOSENERGO	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"; Chairman of the Federal Commission for Securities Market (FCSM Of Russia) / Holds no shares
Igor Timofeyevich Goryunov 1937 / higher/ Russia	Member of the Board of Directors, MOSENERGO; first Deputy General Director — Chief Engineer, MOSENERGO	First Deputy General Director — Chief Engineer, MOSENERGO / Holds no shares
Yuri Leonidovich Guskov 1938 / higher/ Russia	Director of TEP-21, a MOSENERGO branch	Director of TEP-21, a MOSENERGO branch / Holds no shares
Tatiana Petrovna Dronova 1954 / higher/ Russia	Chief Accountant, MOSENERGO	Deputy Head of the Department, ROSENERGOATOM Concern, Ministry of Atomic Energy of the Russian Federation; Chief Accountant, MOSENERGO / 0.0018%
Vitaly Vasilyevich Kuzmin 1959 / higher/ Russia	Deputy General Director of MOSENERGO for Sales and Relations with MOSENERGO Electricity and Heat Consumers	First Deputy Head of the Department for Planning and Economic Analysis, RAO UES of Russia; first Deputy Head of the Department for Economy, RAO UES of Russia / 0.001%
Anatoly Pavlovich Kuleshov 1959 / higher/ Russia	Deputy General Director for Capital Construction, MOSENERGO	Director of Complete Equipment Supply Company, a MOSENERGO branch; director of Zagorsk PSP, a MOSENERGO branch / 0.004%
Alexander Aleksandrovich Mityayev 1952 / higher/ Russia	Deputy General Director for Distribution Systems and Long-Term Development, MOSENERGO	Deputy General Director for Distribution System and Long-Term Development, MOSENERGO / 0.003%
Valery Sergeyevich Mozgalyov 1942 /higher/ Russia	Director, Moscow Regional Dispatching Unit	Deputy General Director — Head of the Regional Dispatching Unit, MOSENERGO; Deputy Chief Engineer for Dispatching, MOSENERGO / 0.014%
Vladislav Lvovich Nazin 1966 / higher/ Russia	Deputy General Director for Economics, MOSENERGO	Financial Adviser to the General Director, MOSENERGO; Finance Director, Vice President for Finance, Vice President — Head of the Department for Banking, AFK Sistema / Holds no shares
Nestor Ivanovich Serebryanikov 1929 / higher/ Russia	Adviser to the General Director, MOSENERGO	Chairman of the Executive Board, member of the Board of Directors, General Director, MOSENERGO / 0.01%

1	2	3
Inna Nikolayevna Tskhovrebova 1972 / higher/ Russia	Deputy General Director for Relations with Public Organizations and Mass Media	Head of the Section (Advisor) for Relations with Bodies of State Administration and Mass Media, MOSENERGO; Deputy General Director, Nonprofit Foundation Private Property Protection Center / Holds no shares
Vladimir Sergeyevich Chistyakov 1959 /higher/ Russia	Deputy General Director for Fuel Supply and Complete Equipment, MOSENERGO	Acting Deputy General Director for Fuel Supply and Complete Equipment, MOSENERGO; Director of Complete Equipment Supply Company, a MOSENERGO branch; Deputy Director for Economics and Finance of Complete Equipment Supply Company, a MOSENERGO branch; Deputy General Director for Economic Policy and Investments, AO Saratov Bearing Plant / Holds no shares

Executive Board's Work

MOSENERGO's Executive Board met regularly in accordance with the approved quarterly plans, that were developed proceeding from the provisions of the Charter and Articles of the Executive Board of the Company, resolutions of general meetings of the Company shareholders, Board of Directors, Executive Board of MOSENERGO and annual work plan of the Executive Board for 2003.

During the reporting year, the Executive Board held 52 meetings where it discussed 329 issues (with 274 planned) relating to the day-to-day operations and prospects of the Company.

- The Executive Board at its meetings in 2003 regularly considered such questions, as:
 - financial and economic status of the Company;
 - progress of the capital construction and remedial maintenance versus the plan;
 - results of analysis of the technical/economic indices of the Company performance;
 - stockbuilding of and payment for fuel;
 - energy marketing of the Company;
 - preparation for peak loads of the fall and winter of 2003/2004;
 - personnel and social issues.

The Executive Board in its work has been keeping a special focus on the issues, relating to preparation and implementation of MOSENERGO reform and registration of title to the Company's real estate.

The Executive Board at its meetings discussed the matters of building up generating capacities, development and upgrading electricity grids in the Moscow area through 2010; replacement of turbine equipment at TEP-1, LAPS-3 and TEP-20 in 2004; progress of construction and commissioning of the shop for production of foamed polyurethane-insulated grid pipelines at MTER; provision of MOSENERGO branches with motor transport and mechanical aids in 2003; implementation of environment protection measures in 2003 and draft program for carrying out thereof in 2004; occupational safety and health status.

In 2003, the Executive Board heard the reports on the results of the industrial and economic activities of five MOSENERGO branches: Heating Grids, MCG, Energosbyt, PPTK and OZAP, as well as ZAO TsOP-Energo.

■ In the past year, the Executive Board of MOSENERGO adopted the following documents:

- on procedure for preparation of materials for the Executive Board meetings and drawing up of resolutions passed thereby;
- guidelines for development of the social policy;
- on procedure for implementation of the pension system restructuring program in MOSENERGO units and participation of MOSENERGO's Non-Governmental Pension Fund in the process;
- on MOSENERGO strategy of the pricing policy implementation with respect to different categories of electricity and heat consumers.

During 2003, all members of the Executive Board took an active part in its meetings: provided for timely and proper preparation of necessary materials and draft resolutions on the questions under discussion, reported and actively discussed them, brought forward specific proposals aimed to gain in performance of MOSENERGO and its branches. Control over execution of decisions taken by the Executive Board was exercised on an on-going basis.

The amount of the remuneration to the members of the Board is determined by the Resolution passed by the Board of Directors of the Company on June 18, 2001, Minutes No. 2. The total amount of remuneration paid by the Company to the members of MOSENERGO's Executive Board for the year 2003 was RUR 2,580,800.

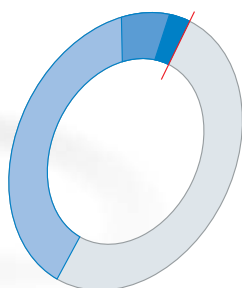
Issuing of Shares

The Charter Capital of the Company is RUR 28,267,726,000 divided into 28,267,726,000 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.

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 have been placed among the shareholders in proportion to their share in the Charter Capital of MOSENERGO.

MOSENERGO's fourth issue of 2,667,726,000 shares was placed in 2000 through a tied private subscription to the Moscow City Government represented by the Moscow's Department of Property and to RAO UES of Russia.

■ Share Capital Structure
as of December 31, 2003, %



RAO UES of Russia	50.87
Legal entities and nominee holders	39.61
Natural persons	6.57
Department of Property of Moscow Government	2.95

■ Structure of MOSENERGO's Share Capital

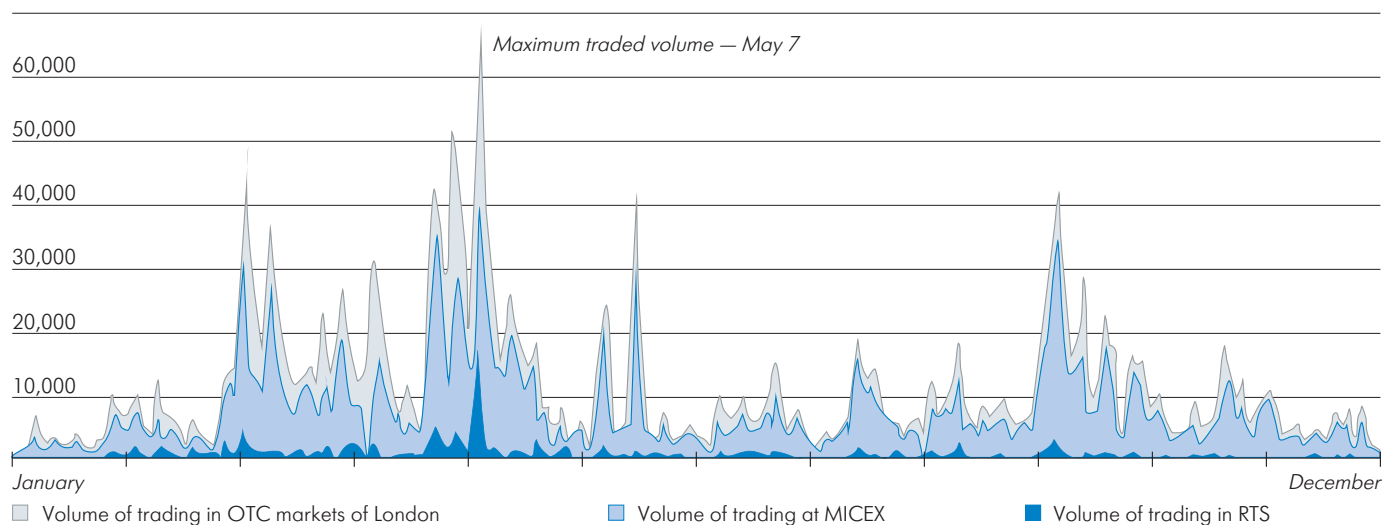
	Interest in Charter Capital, %	
	as of 31.12.2002	as of 31.12.2003
RAO UES of Russia	50.87	50.87
Department of Property of Moscow Government	2.95	2.95
Legal entities and nominee holders	38.41	39.61
Natural persons	7.77	6.57

■ Major Holders of Shares

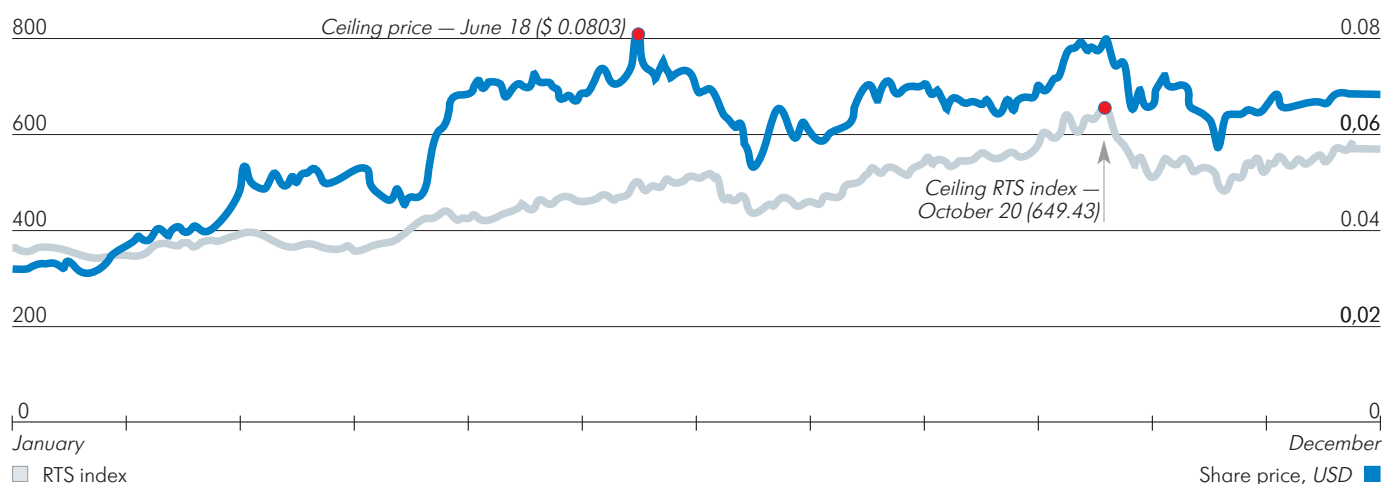
	Interest in Charter Capital, %	
	as of 31.12.2002	as of 31.12.2003
RAO UES of Russia	50.87	50.87
ZAO Depository Clearing Company (nominee holder)	6.07	18.28
ZAO ING Bank (Eurasia)/ING Depository (nominee holder, ADR program depository)	22.39	10.32
NP National Depository Center (nominee holder)	6.26	9.81
Department of Property of Moscow	2.95	2.95

A reduction in the stake of foreign companies and an increase in the stake of Russian companies in MOSENERGO's Charter Capital are due to the sale by foreign companies during the year of MOSENERGO's shares, traded in the form of American Depositary Receipts, outside the Russian Federation.

■ Dynamics of Trading Volumes of MOSENERGO Shares in Major Trading Systems in 2003, USD'000



■ Movement of MOSENERGO's Share Price and RTS Index in 2003



Price of Securities. Market Capitalization of the Company's Shares

MOSENERGO shares are actively dealt in by major trading systems of the Russian stock market, Moscow Interbank Currency Exchange (MICEX) and Stock Exchange of the Russian Trading System (RTS).

In 1995 MOSENERGO implemented an ADR program for the Company's shares according to Rule 144A and Regulation S as defined under the Securities Act of 1933. Level I ADRs are now outstanding, and the percentage of MOSENERGO's shares deposited against ADRs is 9.21% of the Charter Capital of the Company as of 31.12.2003.

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**

RTS Stock Exchange	MSNG
Moscow Interbank Currency Exchange	MSNG

■ **MOSENERGO's ADR Tickers**

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

■ **Trading Volume of MOSENERGO's Shares in 2003 in Major Trading Systems, USD million**

RTS	162.01
MICEX	2,105.63
European (London) over-the-counter market*	400.87

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

The growth of the Russian Trading System index (general indicator of changes in quotation of the Russian companies' shares) in 2003 was 57.8% (35% in 2002).

The movement of the Russian securities in 2003 was materially influenced by the TNK-British Petroleum deal, as well as by the events in connection with YUKOS. In October Moody's raised the credit rating of Russia to the first level of Baa3 investment rating. All these events occur against the background of improving national measures and growth of the world oil prices.

A positive effect on fluctuations of prices of power utilities' shares in 2003 was produced by the adoption of a package of laws on reforming the power industry. The stock index of companies operating in the electric power sector, S&P/RUX Power, had ramped up by 70% over the year.

Based on the 2003 results, the price of MOSENERGO's shares at the RTS Stock Exchange increased by 95%. The weighted average price of the Company's shares as at the end of the year was USD 0.06788.

According to RTS, the bottom price of MOSENERGO's shares in 2003, USD 0.03085, was registered on January 27, and on June 18 the share price reached its ceiling of USD 0.08029.

Over 2003, the Company's capitalization more, than doubled (a 2.13 times rise), and as at the end of the year amounted to USD 1,905 million.

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. MOSENERGO's dividend policies are oriented towards increasing the amount of dividends accruing to the shareholders.

In 2003, the dividend on MOSENERGO's shares was accruing and paid based on the 2002 work results in strict compliance with the resolution of the General Meeting of Shareholders. The dividend was paid in full within 60 days after the Shareholders' Meeting so resolved.

In consideration of the net profit received by the Company in 2003, MOSENERGO's Board of Directors recommends that the General Meeting of Shareholders should approve the dividend based on the Company's 2003 work results at the rate of RUR 0.01946 per share.

Period	Outpayments per share, RUR	Total amount of dividend accrued, RUR thou	Dividend yield*, %
In 1994 based on the 1993 work results	2	9,613	—
In 1995 based on the 1994 work results	0.02	51,200	—
In 1996 based on the 1995 work results	0.05	128,000	4.48
In 1997 based on the 1996 work results	0.05	128,000	0.66
In 1998 based on the 1997 work results	0.05	128,000	0.71
In 1999 based on the 1998 work results	0.0015	38,294	0.30
In 2000 based on the 1999 work results	0.003	79,298	0.17
In 2001 based on the 2000 work results	0.007667	216,729	0.87
In 2002 based on the 2001 work results	0.01831	517,582	1.33
In 2003 based on the 2002 work results	0.01837	519,278	1.21
In 2004 based on the 2003 work results**	0.01946	613,127	0.97

*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

Subsidiaries and Associated Companies

■ Corporate governance of organizations with the participation of the Company is exercised in compliance with:

- the Charter of MOSENERGO, Open Joint Stock Company for Energy and Electrification, amendments and addenda to the Charter;
- the Procedure for Interaction Between MOSENERGO and Organizations with the Company's Interest approved by the Board of Directors of MOSENERGO.

■ The Company exercises corporate interplay with subsidiary, associated and other organizations where the Company has an interest through its representatives:

- at general meetings of such organizations;
- in boards of directors of such organizations;
- in supervisory bodies of such organizations.

According to MOSENERGO's Charter, the management bodies of the Company determine position of MOSENERGO's representatives in the management bodies of subsidiary, associated and other organizations where the Company has an interest.

Financial Statements

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IFRS consolidated financial statements for the year ended 31 December 2003 can be found at www.mosenergo.ru in the "To Our Shareholders and Investors" section



Management's Opinion on Financial Statements

The financial statements of MOSENERGO are made out in full compliance with legislative and regulatory acts in force in the Russian Federation.

The Company's management bears full responsibility for preparation of consolidated annual financial 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, 2003.

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 30, 2003.

The financial statements for 2003 were examined by OOO RSM Top-Audit, an independent firm of auditors approved as the Company auditor by the General Meeting of Shareholders on May 30, 2003. The independent auditors carry out their audits within the framework of generally accepted auditing standards. In the course of the audit, auditors have access to financial statements and other documents, as well as follow the prescribed procedure with a view to obtain adequate grounds for expression of their opinion about the compliance of the financial statements with the requirements of the legislation in force and absence of material distortions.

Based on the results of the conducted audit, MOSENERGO's management obtained pertinent findings that bear evidence of the authenticity in all material respects of the data contained in financial statements and compliance of the accounting practices with the Russian Federation legislation.

General Director



A.V. Yevstafiev

Chief Accountant



T. P. Dronova

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

March 19, 2004

Moscow

The Audit Commission of MOSENERGO, Open Joint Stock Company for Energy and Electrification, elected by the General Meeting of Shareholders on May 30, 2003, acting within the powers defined by the Federal Law "On Joint Stock Companies", the 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, conducted a documentary verification (audit) of the financial and economic activities of MOSENERGO, Open Joint Stock Company for Energy and Electrification, over 2003 in Moscow in the period from March 3 to 12, 2004.

The audit was carried out as required by the Russian Federation legislation and the Audit Commission's resolution of 27.02.2004.

The purpose of the audit was to authenticate the metrics of the account books, statistical reports and other documents of the Company, their compliance with the Russian Federation legislation.

The auditing targets were financial and economic activities of the Company in 2003, financial and business records, including account books and statistical reports, as well as other documents.

In its audit the Commission relied on the following regulatory, legal and other documents governing the Company activities: Federal Law of the Russian Federation No. 208-FZ "On Joint Stock Companies" dated 29.12.1995, the Charter of MOSENERGO, Open Joint Stock Company for Energy and Electrification, the Articles of the Executive Board of MOSENERGO, Open Joint Stock Company for Energy and Electrification, the Articles of the Economic Mechanism of MOSENERGO, Open Joint Stock Company for Energy and Electrification, MOSENERGO's Order No. 960 "On Accounting Policy for 2003" dated 27.12.2002, MOSENERGO's Order No. 928 "On Tax Accounting Policy of MOSENERGO for 2003" dated 25.12.2002, and other documents regulating the Company's activities.

The audit of the accounting records and reports and other documents relating to the financial and economic activities of the Company found as follows.

The annual accounting statements for 2003 are consolidated statements and include reports of all Company branches (61) and of the General Directorate. The Annual Report is a true reflection of the Company's assets, financial performance, and cash flows. The Report has been made at such detail and form as to comply with Order No. 4n of January 13, 2000, by the Ministry of Finance of the Russian Federation and the Methodological Recommendations on the Procedure for Formation of Organizations' Accounting Indicators approved by Order No. 60n of June 28, 2000, by the Ministry of Finance of the Russian Federation.

Assets, liabilities, and economic operations are denominated in rubles, the legal tender of the Russian Federation. Entries in the Company's foreign exchange accounts and other accounting transactions involving foreign exchange were denominated in rubles by converting the foreign currency at the rate of the Central Bank of the Russian Federation as effective on the transaction date. Fixed assets, intangibles, inventories were valued and booked at actual acquisition cost. End products (work, services) were valued at actual cost.

Sales profit was defined as the difference between proceeds from sales at the effective prices and tariffs, net of VAT, and the respective costs of production, distribution, and sales.

Financial and business transactions are proved out by book records. The accounting ledgers are in compliance with their respective underlying instruments.

Authenticity of the annual financial statements in all material respects, as well as the compliance of the accounting practices with the Russian Federation legislation are affirmed by MOSENERGO Auditor's Opinion on Financial Statements No. EL-503 of 02.03.2004 prepared by RSM Top-Audit Limited Company.


The audit found no material breaches or distortions, as regards compliance with the requirements of the Russian Federation legislation, in conducting financial and business transactions.

Based on the above and as consistent with the findings of the audit of financial and economic activities of the Company, the Audit Commission hereby validates data contained in the annual report of the Company:

1. The Company's financial performance figures for 2003 are accurate.
2. The financial statements with the balance-sheet total of RUR 126,674,932,973 give a true and fair view of the assets and liabilities as of 31.12.2003 and financial performance over 2003.
3. The net distributable profit for the accounting period is RUR 1,730,981,406.

Chairman of the Audit Commission

Members of the Commission:



S.B. Sidorov
O.V. Zabrodin
D.N. Nikitin
E.E. Smirnova
G.F. Shevchenko

***Auditor's Opinion on Financial
Statements***

**To shareholders of
MOSENERGO**

Auditor:
RSM Top-Audit Limited Company.

Legal address: building 4, 5 Schosse Entuziastov, Moscow 111024, Russia.

Mail address: 43 bldg 1, ul. Pokrovka, Moscow 103062, Russia.

Phone (095) 916-0911, fax: (095) 917-8789.

INN (Taxpayer ID) 7722020834

State Registration Certificate No. 360.640 dated April 02, 1992 issued by the Moscow Registration Chamber.

Auditing License No. E 004827, issued pursuant to the RF Ministry of Finance's Order No. 238 of August 01, 2003.

The said license is issued for five years from the date thereof.

OOO RSM Top-Audit is a member of the Institute of Professional Auditors (IPAR).

Audited Entity

Name: MOSENERGO Open Joint Stock Company for Energy and Electrification
(abbreviated name: MOSENERGO);

Location: 8 Raushskaya Naberezhnaya, 115035 Moscow, Russia

Registration number 12473, date of state registration April 06, 1993, re-registered on June 20, 2003.

MOSENERGO has the following key centralized licenses:

License for ensuring the operability of electric and heating grids, No. 5 (G 322930), effective from August 30, 2001, through August 30, 2004.

License for storing oil and oil products No. D 064666 effective from February 03, 2003, through February 02, 2008.

License for loading and unloading operations in railway sector No. PRD 00814 effective from May 14, 2003, through May 13, 2008.

License for operation of fire hazardous production facilities No. 3/00030 effective from May 21, 2003, through May 21, 2008.

License for maintenance and repair of hardware used in railway sector No. 0099-TS effective from September 17, 2003, through September 17, 2008.

License for operation of boiling facilities, No. 42EK-002439, effective from August 11, 2000, through August 11, 2005.

License for transportation of hazardous substances at a hazardous industrial facility; for operation of industrial facilities' own locomotives and access railroads, No. 64EK-003391, dated December 05, 2000, with effect until December 05, 2005.

Licenses for services in assembly, repair, and maintenance of fire safety equipment and systems, Nos 11002975, 11002974, 11002973, 11002972, 11002971, 11002970, 11002969, 11002968, 11002967, 11002966, 11002965, effective from January 31, 2001, through January 31, 2004.

License for operation of natural gas facilities dated with effect from August 25, 2000, through August 25, 2005.

License for in-house control of fire safety No. 11003503 dated July 10, 2001, with effect until July 10, 2004.

License for development of fire safety measures, scientific/technological consultancy in fire safety, No. 11003916, dated September 28, 2001, with effect until September 28, 2004.

License for operation in the sphere of construction of buildings and structures, No. GS-1-50-02-22-0-7705035012-000502-1, dated December 21, 2001, with effect until December 21, 2006.

License for operation in the sphere of development of urban planning documentation No. FLTs 002149-1 (I) dated January 15, 2001, with effect until January 15, 2006.

License for site investigation No. FLTs 002149-1 (II) dated January 15, 2001, with effect until January 15, 2006.

License for operation in the sphere of construction of buildings and structures, No. FLTs 002149-1 (IV), dated January 15, 2001, with effect until January 15, 2006.

License for operations relating to use of information that constitutes state secret, No. 1930 of September 02, 1999, with effect until September 02, 2004.

License for implementation of measures and/or services in the field of state secret protection, No. 2033, dated November 03, 1999, with effect until September 02, 2004.

License for transportation of cargoes on motor vehicles in the Russian Federation, No. GSS-77-075147, dated June 11, 2002, with effect until June 10, 2007.

License for conduct of expert reviews in industrial safety (expert reviews of technical devices used at increased hazard facilities), No. 00-DE-000454, dated September 12, 2002, with effect until September 12, 2007.

License for repair of measurement instruments, No. 000027-R, dated December 02, 2002, with effect until December 02, 2007.

License (permit) for the use of Moscow's symbols, No. NM 000303, dated September 10, 1998, perpetual.

We have audited the enclosed financial statements of MOSENERGO for the period from January 01 through December 31, 2003, inclusively. The above financial statements of MOSENERGO include:

- a balance sheet;
- a profit and loss statement;
- annexes to the balance sheet and the profit and loss statement;
- an explanatory note.

Preparation and filing of the above financial statements are responsibilities of MOSENERGO's executive body.

Our responsibility was to opine, based on our audit, on the accuracy, in all material respects, of these statements and on compliance of the accounting procedures with the laws and regulations of the Russian Federation.

We have performed our audit in accordance with:

- Federal Law "On Audits";
- Federal Rules (Standards) of Auditing as approved by the RF Government's Resolution No. 696 of September 23, 2002;
- other laws and regulations governing auditing activities in the Russian Federation;
- in-house rules (standards) of auditing adopted by ООО RSM Top-Audit.

The audit was planned and conducted so as to obtain sufficient assurance that the financial statements are free of material distortions. The audit included verifications, on a sample basis, of confirmations to the figures and explanations, as presented in the financial statements, of information on financial and economic operations; evaluation of the accounting principles and methods, rules of financial statement compilation, the procedures for obtaining estimated values received by MOSENERGO management, and a general evaluation of the financial statements provided. We believe that the audit provides a sufficient basis to render our opinion as to whether the statements in question are accurate in all material respects, and whether the accounting procedures comply with the laws and regulations of the Russian Federation.

In our opinion, the financial statements of MOSENERGO with the bottom line of RUR 126,674,933 thousand as of 31.12.2003 provide an accurate reflection, in all material respects, of the MOSENERGO's financial situation as of December 31, 2003, and its financial and economic performance in the period from January 01 through December 31, 2003, inclusively.

Without changing our opinion on the veracity of MOSENERGO's accounting, we would like to invite your attention to Item 3.23 of the Explanatory Note to the accounts stating that the organization is going through restructuring. This fact can weigh with the change of scale of MOSENERGO's operation in 2004.

Deputy General Director for Audit

Audit Manager



E.Z. Shokhor

N.A. Dantser

Auditor's Certificate of Competence No. 010638,
issued in accordance with the Resolution of TsALAK of the
RF Ministry of Finance dated January 25, 1996, Minutes No. 28,
extended on March 28, 2002 (Minutes No. 104)
for an indefinite duration.

Profit and Loss Statement

■ Item	Note No	RUR'000	
		2003	2002
I. Income and expenditure for core activities			
Proceeds from sales of goods, products, works, services (net of VAT, excises and similar mandatory payments)	[1]	69,605,033	52,962,424
Production cost of goods, products, works, services sold		(62,895,953)	(48,318,368)
Gross profit		6,709,080	4,644,056
Business expenses		(65,842)	(48,693)
Management expenses		0	0
Sales profit		6,643,238	4,595,363
II. Other income and expenditure			
Interest receivable		1,935	20,212
Interest payable		(678,717)	(573,890)
Revenues from interest in other organizations		6,672	6,001
Other operating income	[2]	2,045,067	3,936,656
Other operating expenses	[2]	(3,987,197)	(5,665,990)
Non-operating income	[3]	1,039,200	671,827
Non-operating expenses	[3]	(1,872,600)	(2,111,472)
Pre-tax profit		3,197,598	878,707
Deferred tax assets		1,761	0
Deferred tax liabilities		(213,307)	0
Profit tax expense-current		(1,255,071)	(232,453)
Net profit		1,730,981	646,254
For reference			
Standing tax liabilities (assets)		745,418	—
Basic earnings per share		0.0612	0.0229
Diluted earnings per share		—	—

Decoding of Individual Profits and Losses

■ Item	RUR'000	
	2003	2002
Penalties, fines and forfeits recognized or imposed by decision of the court (arbitration)		
profit	44,438	361,810
loss	(21,054)	(2,539)
Profit (loss) of previous years		
profit	588,470	191,929
loss	(55,060)	(47,375)
Reimbursement for losses inflicted by non-fulfillment or improper fulfillment of obligations		
profit	1,102	206
loss	(4,431)	(2,882)
Differences in rates of exchange for transactions in foreign currency		
profit	280,544	23,838
loss	(64,607)	(309,306)
Allocations toward assessed reserves		
loss	—	—
Writing off of receivables and payables with expired period of limitation		
profit	6,086	8,480
loss	(14,329)	(134,230)

Balance Sheet

■ Assets	Note No.	RUR'000	
		As of 01.01.2003	As of 01.01.2004
I. NON-CURRENT ASSETS			
Intangible assets		49	47
Fixed assets	[4]	95,004,616	95,578,825
Construction in process	[5]	5,366,236	6,707,036
Income-bearing placements in tangibles		0	0
Long-term financial investments	[6]	69,415	86,811
Deferred tax assets		0	1,761
Sundry non-current assets		0	0
Section I TOTAL		100,440,316	102,374,480
II. CURRENT ASSETS			
Inventories	[7]	4,827,006	5,287,160
including:			
stores, supplies and other similar valuables		3,652,760	4,724,259
rears and fatteners		47,487	63,359
expenditures for work in progress (distribution costs)		49,853	62,774
finished products and goods for reselling		46,221	42,106
goods forwarded		0	0
deferred expenses		1,030,685	394,662
other inventories and expenses		0	0
Value-added tax on valuables acquired	[8]	1,262,994	1,747,493
Receivables (expected to be paid in more than 12 month from the reporting date)	[9]	126,975	182,973
including:			
buyers and customers		111,851	86,463
Receivables (expected to be paid within 12 month after the reporting date)	[10]	11,219,299	12,380,276
including:			
buyers and customers		8,822,520	6,733,120
Short-term financial investments	[11]	0	30,378
Monetary assets	[12]	1,756,559	4,672,173
Sundry current assets		0	0
Section II TOTAL		19,192,833	24,300,453
BALANCE		119,633,149	126,674,933

■ Liabilities	Note No.	RUR'000	
		As of 01.01.2003	As of 01.01.2004
III. CAPITAL AND RESERVES			
Charter capital		28,267,726	28,267,726
Company stocks redeemed from stockholders		0	0
Additional capital	[13]	73,113,443	72,707,691
Reserve capital	[14]	279,092	311,405
including:			
reserve funds formed in compliance with the legislation		279,092	311,405
reserve funds formed in compliance with the constituent documents		0	0
Retained earnings (uncovered loss)		1,674,019	3,165,569
Section III TOTAL		103,334,280	104,452,391
IV. LONG-TERM LIABILITIES	[15]		
Loans and credit facilities		4,089,172	2,748,767
Deferred tax liabilities		382,628	595,935
Other long-term liabilities		0	0
Section IV TOTAL		4,471,800	3,344,702
V. SHORT-TERM LIABILITIES	[16]		
Loans and credit facilities		3,245,885	9,236,614
Accounts payable		6,680,878	7,361,706
including:			
suppliers and contractors		2,605,028	2,900,385
accrued payroll		213,325	391,567
debts payable to public extra-budgetary funds		97,399	92,030
arrears of taxes and levies		1,120,920	1,350,623
other accounts payable		1,915,608	1,523,638
Arrears of revenues payable to shareholders		4,477	1,006
Deferred incomes		1,895,829	2,278,514
Provision for Liabilities and Charges		0	0
Sundry current liabilities		0	0
Section V TOTAL		11,827,069	18,877,840
BALANCE		119,633,149	126,674,933

Statement of valuables on off-balance sheet accounts

■ Item	RUR'000	
	As of 01.01.2003	As of 01.01.2004
Fixed assets taken on lease	4,260,069	6,395,848
including on long-term leasing	258,910	426,750
Inventory taken in charge	70,457	110,316
Goods taken on commission	0	0
Bad debts written off to losses	930,338	1,080,422
Security for liabilities and payments received	234,868	232,474
Security for liabilities and payments issued	3,464,797	2,226,599
Depreciation of housing stock	14,158	10,769
Depreciation of utilities and other similar facilities	0	0
Intangible assets received for use	0	0

Cash flow statement

Item	RUR'000	
	2003	2002
Opening cash balance	1,740,285	2,623,304
Cash flow for day-to-day operation		
Cash received from buyers, customers	84,109,082	63,826,876
Receipts of purchased foreign currency	754,631	3,400,027
Proceeds from contingencies	38,858	36,077
Cash received from in-house account	43,511,340	28,267,074
Other income (proceeds)	438,544	1,568,451
Cash allocated for:		
payment for purchased goods, works, services, raw materials and other current assets	(27,536,738)	(23,118,246)
payment for labor	(7,771,099)	(6,322,140)
payment of dividends, interest	(474,717)	(497,860)
payment of taxes and levies	(9,172,338)	(6,647,190)
contingency payments	(5,581)	(105,835)
in-house interaccount transfers	(43,511,340)	(28,267,074)
social transfers	(46,546)	(24,164)
other expenses (payments)	(33,932,886)	(23,717,290)
Net cash from day-to-day operations	6,401,210	8,398,706
Cash flow in investment activities		
Proceeds from sales of fixed assets and other non-current assets	157,083	63,372
Proceeds from sales of securities and other financial investments	10,624	332,439
Dividends received	7,318	4,536
Interest received	191	560
Other receipts	10,592	198,725
Acquisition of fixed assets, income-bearing placements in tangible and intangible assets	(4,950,853)	(3,608,656)
Acquisition of securities and other financial investments	(490)	—
Other expenses	(3,531,699)	(1,221,410)
Net cash from investment activities	(8,297,234)	(4,230,434)
Cash flow in financial activities		
Proceeds of loans and credit facilities granted by other organizations	11,715,000	9,160,279
Receipt of funds under target financing	11,959	6,366
Repayment of loans and credit facilities (net of interest)	(6,825,523)	(10,202,777)
Other expenses	(76,462)	(4,000,792)
Net cash from financial activities	4,824,974	(5,036,924)
Net increase (decrease) in cash and cash equivalents	2,928,950	(868,652)
Cash balance as at the end of the accounting period	4,669,235	1,754,652
Effect of foreign exchange movements with respect to ruble	14,370	3,477

General Principles of Accounting Policy

Accounting policy of MOSENERGO is pursued in conformity with Federal Law No. 129-FZ "On Accounting" of November 29, 1996, and normative acts of the Russian Ministry of Finance regulating the bookkeeping practices and accounting rules.

Based on the above regulatory documents, MOSENERGO's General Director issued Order No. 960 of December 27, 2002, "On Accounting Policy for 2003", with subsequent amendments and addenda thereto, to formulate major accounting principles of the Company for 2003.

Business transactions are accounted in the books according to the Working Chart of Accounts of Financial and Economic Operations of MOSENERGO approved on December 6, 2001. MOSENERGO and all its branches apply interdepartmental model forms of primary accounting documents recommended by the State Committee for Statistics of Russia.

Financial and business transactions for which model forms of primary accounting documents are not provided, as well as internal accounts are formalized 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.

Changes in the Accounting Policy

The Company's accounting policy in 2003 underwent no major changes.

Comparative Data

Comparative data in the 2003 accounts are formed by way of adjustment of closing accountancy data for 2002 to bring them into line with the changes in the reporting forms of 2003.

The opening balance of 2003 reflects deferred tax liabilities in the amount of RUR 382,628 thousand. The retained profit of past years decreased by equal amount. In general, the balance-sheet total remained unchanged. The above variation is shown in the Statement of Change in the Balance-Sheet Total.

Fixed Assets

Fixed assets include assets that are used in output of products, execution of works, rendering of services or for management exigencies of MOSENERGO during a term lasting more than 12 months.

Items referred to the fixed assets are accounted at their actual costs of acquisition or construction. In the statements, the fixed assets are shown at their initial cost less depreciation accumulated over the entire period of their operation.

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.

No depreciation was accrued on land and housing facilities.

Incomes and losses from the fixed assets retirement are reflected in the Profit and Loss Statement among operational incomes and losses, with losses caused by write-off and gratuitous transfers of fixed assets shown within the non-sales losses.

The interests on loans obtained to finance fixed assets acquisitions (construction) are incorporated in the initial cost of such fixed assets. The interests accrued on the loans after the fixed assets have been posted into the ledger are charged to the fiscal effects.

Intangible Assets

Included among intangible assets are costs of intangibles that are used over a period exceeding 12 months.

The intangible assets are valued and accounted at actual acquisition costs.

The intangible assets included MOSENERGO's trademark.

Inventories

Inventories are assessed at their actual acquisition costs.

The inventories released into the production process or otherwise disposed of were valued in 2003 at their mean cost.

Work in progress and end products (work, services) were valued at the actual cost.

Expenses incurred by the Company in the reporting year but relating to the next reporting periods are shown as deferred expenses subject to the appropriate flat-rate amortization within their relevant periods.

Payables Due from Buyers and Customers

Payables due from buyers and customers are determined based on the prices set in agreements between the Company and such buyers, inclusive of all discounts (mark-ups).

Bad debt is subject to writing off the books as it is recognized as such.

Provision for Liabilities and Charges

The Company makes no provision for liabilities and charges.

Foreign Currency-Denominated Assets and Liabilities

Entries related to the Company's foreign currency accounts and foreign currency-denominated transactions are made in rubles. Entries are made by way of converting the foreign currency at the rate of the Central Bank of Russia as effective on the transaction date. The same entries are also made in the currency of relevant settlements and payments.

In accounting of a foreign currency-denominated transaction, the official rate of the ruble effective on the date of the transaction was applied. Cash assets and liabilities denominated in foreign currencies are reflected in the accounting statements as amounts calculated based on the official rate of the ruble effective on December 31, 2003, i.e. RUR 29.4545 per USD 1 and RUR 36.8240 per EUR 1.

The exchange rate differences are posted to the "Profits and Losses" account and then included in the calculation of the profit tax, unless otherwise prescribed by the laws of the Russian Federation. The period of accounting is one month.

Any exchange differences emerging during the year in transacting assets and liabilities, and also in their recalculation as of December 31, 2003, are charged to the fiscal effect and reflected among non-operating income and expenses.

Additional Capital and Reserve Capital

Additional capital is derived from the increased value of the fixed assets as determined in their re-evaluation, and from revenues received through selling some of the Company shares at a premium price.

The Company forms a reserve capital that is intended to cover losses that may occur in the course of the Company's business. The reserve capital is created from the Company's net profit.

Short-term and Long-term Assets and Liabilities

The assets and liabilities in the accounts are charged to a short-term category if their maturity does not exceed 12 months starting with the balance sheet date. All other assets and liabilities are shown in the accounts as long-term.

Acknowledgement 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, sales tax, export duties, discounts granted to the buyers, 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.

Share Investments

Gains and losses from share investments are shown in the Profit and Loss Statement among operational incomes and expenses.

Subsidiaries and associated companies are listed in the Reference Materials section.

Taxes

- In 2003, MOSENERGO paid its taxes as follows:
 - profits tax, as provided by the Tax Code of the Russian Federation, Chapter 25, Article 288, based on the average ratio of staff on the payroll and weight of the depreciated cost of property. This tax is paid from MOSENERGO's account to the budgets of all levels separately: to the federal budget, to the budgets of the City of Moscow, the Moscow Region, local budgets of the towns of the Moscow Region and the Ryazan Region at the rates specified by the Tax Code of the Russian Federation, Chapter 25, Article 284;
 - value added tax, as set forth in the Tax Code of the Russian Federation, Chapter 21. The tax is calculated for the Company as a whole and paid from MOSENERGO's account to the federal budget;
 - property tax, calculated as provided by Article 1 of the Federal Law of the Russian Federation No. 1-FZ of January 8, 1998, and paid by MOSENERGO at the places of registration of its structural units.
- All other taxes are calculated and paid independently by branches on behalf of MOSENERGO in accordance with the established legal procedure.

Determination of Fiscal Effect

The fiscal effect of MOSENERGO's economic operations is determined in terms of the Company at large on a quarterly basis at the level of the General Directorate. Every month the Company branches present information about balances of the balance turnover accounts and the bill of the Profit and Loss Statement to the General Directorate within the time-limits set forth in the General Director's order.

The sales profit is defined as the difference between proceeds from sales at the effective prices and tariffs, net of VAT, and the respective costs of generation, distribution, and sales.

The pre-tax profit is determined as a profit (loss) from sales of products (works, services), operating earnings gain net after operating expenses and non-operating income less non-operating expenses.

In the Balance Sheet and Profit and Loss Statement, the fiscal effect of the reporting year is reflected as net profit

(retained earnings), i.e. resulting fiscal effect ascertained for the accounting period net after taxes chargeable on profits and other similar mandatory payments, including penalties for non-compliance with the taxation rules.

Appropriation of MOSENERGO's net profit is approved by the general meeting of shareholders.

Notes to Financial Statements

Comment on the Profit and Loss Statement

[1] Proceeds from sales of products			RUR'000
	2002	2003	Deviation
Proceeds, total	52,962,424	69,605,033	16,642,609
Including from sales of:			
electricity to internal consumers	35,425,439	47,146,694	11,721,255
heat	15,738,080	20,071,415	4,333,335
other goods (works, services)	1,798,905	2,386,924	588,019

For the accounting year, the sales proceeds has grown by 31.4% as compared with the last year, and amounted to RUR 69,605,033 thousand.

[2] Other operating income and expenses			RUR'000
	2002	2003	Deviation
Other operating income	3,936,656	2,045,067	-1,891,589
Other operating expenses	5,665,990	3,987,197	-1,678,793

Reduction of the operating income in 2003 versus 2002 by RUR 1,891,589 thousand is basically due to a decline in proceeds from sales of flats, securities (bills and notes). However, the operating income from sales of fixed assets has shown a considerable gain.

Diminution of operating expenses in 2003 as compared with 2002 by RUR 1,678,793 thousand is due to lower costs of sales of flats, securities (bills and notes), property tax, maintenance of dormant facilities, and other.

[3] Non-operating income and expenses			RUR'000
	2002	2003	Deviation
Non-operating income	671,827	1,039,200	367,373
Non-operating expenses	2,111,472	1,872,600	-238,872

The non-operating income in 2003 grew by RUR 367,373 thousand mainly for the account of profit of past years in the amount of RUR 396,541 thousand, and exchange premium of RUR 256,706 thousand.

At the same time, the non-operating expenses in 2003 decreased by RUR 238,872 thousand as compared with 2002 under the following items:

- exchange rate difference: by RUR 244,699 thousand;
 - costs of transfer of social assets: by RUR 57,351 thousand.
- Reduction of costs under this item was due to the fact that the best part of the social assets had been earlier transferred into municipal ownership.

The charitable contributions in 2003 decreased by RUR 15,107 thousand.

According to the resolution of the Executive Board and Board of Directors, accounts receivable unpaid for over three years in the amount of RUR 14,329 thousand were written off for non-operating expenses.

Statement of Change in the Balance-Sheet Total

RUR'000

■ Item	Annual report for 2002	Acc balance sheet as of 01.01.2003	Deviation
LIABILITIES			
Retained earnings	2,056,647	1,674,019	-382,628
Deferred tax liabilities	0	382,628	382,628
BALANCE	119,633,149	119,633,149	0

Comments on Changes in the Balance Sheet Lines

[4] Fixed assets	RUR'000		
	As of 01.01.2003	As of 01.01.2004	Deviation
Land and objects of nature management	85	6,204	6,119
Buildings, machinery and equipment, structures	94,302,890	94,268,782	-34,108
Other types of fixed assets	701,641	1,303,839	602,198
Total	95,004,616	95,578,825	574,209

In 2003, the Company bought a parcel of land in the Klinsky District, Moscow Region, for production exigencies of Otkyabrskiye Grids branch.

A reduction in the "Buildings, machinery and equipment, structures" line is associated with sale of buildings and structures that are not used in the course of production.

A RUR 602,198 thousand increase in the "Other types of fixed assets" line is largely associated with acquisition of transport means and implements.

[5] Construction in process	RUR'000		
	As of 01.01.2003	As of 01.01.2004	Deviation
Equipment for installation	704,659	809,598	104,939
Investments in non-current assets	4,661,577	5,897,438	1,235,861
Total	5,366,236	6,707,036	1,340,800

■ Major capital construction projects are, RUR'000:

— Akademicheskaya substation (Yuzhniye Grids) 583,942
 — 220 kV Shukolovo substation (Dmitrovskiy Grids) . . . 305,768

— Ostashkovskaya Heating Main (Heating Grids) 999,734
 — Druzhinnikovskaya Heating Main
 (Heating Grids) 226,506

[6] Long-term financial investments	RUR'000		
	As of 01.01.2003	As of 01.01.2004	Deviation
Investments in subsidiary companies	26,441	26,441	0
Investments in associated companies	2,264	2,264	0
Investments in other organizations	36,111	53,528	17,417
Sundry long-term financial investments	4,599	4,578	-21
Total	69,415	86,811	17,396

As of January 01, 2004, MOSENERGO's long-term financial investments in other organizations amounted to RUR 86,811.4 thousand, including RUR 27,610.0 thousand in charter capitals of organizations, RUR 54,623.7 thousand in shares, RUR 17.7 thousand in bonds of the RF Ministry of Finance, RUR 4,560.0 thousand in joint activities with OAO Turbine Motor Works.

Over 2003, the long-term financial investments increased by RUR 17,396 thousand.

■ A RUR 19,231 thousand grow occurred due to the following reasons:

— in keeping with Accounting Rules 19/02 "Accounting of Financial Investments", the Company revaluated the long-term financial investments in the form of shares quotable at the securities market (OAO Savings Bank of Russia, OAO Vozrozhdeniye Bank, OAO KAMAZ, OAO GUM Trade House). The revaluation result totaled RUR 18,741 thousand.

As of January 01, 2003, the book value of the shares of the above organizations stood at RUR 364 thousand versus RUR 19,105 thousand as of December 31, 2003;

— by decision of the Board of Directors, the Company bought an additional block of shares in ZAO Unikhimtek in the amount of RUR 490 thousand. As of December 31, 2003, MOSENERGO holds 5000 shares in ZAO Unikhimtek for the total value of RUR 500 thousand making 13% of its charter capital.

■ At the same time, the long-term financial investments decreased in 2003 by RUR 1,835 thousand for the following reasons:

— the Board of Directors adopted a resolution on selling shares of ZAO ABB Moskabel. The book value of the sold

shares was RUR 1,814 thousand, the market value amounted to RUR 10,624 thousand showing a RUR 8,810 thousand profit on sales;

— in accordance with the terms and conditions of the domestic currency Bond issue of 1993, five bonds were redeemed to the amount of RUR 21 thousand.

The complete list of non-core financial investments is given in the reference materials to this Report in the "Subsidiaries and Associated Companies" table.

[7] Inventories			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Stores, supplies and other similar valuables	3,652,760	4,724,259	1,071,499
including:			
fuel oil	836,816	1,394,630	557,814
coal	666,936	1,280,079	613,143
diesel fuel	66,646	102,701	36,055
other process fuel	1,700	4,238	2,538
spare parts	607,906	655,880	47,974
other raw materials and supplies	1,472,756	1,286,731	-186,025
Rearers and fatteners	47,487	63,359	15,872
Expenditures for work in progress (distribution costs)	49,853	62,774	12,921
Finished products and goods for reselling	46,221	42,106	-4,115
Deferred expenses	1,030,685	394,662	-636,023
Total	4,827,006	5,287,160	460,154

The closing value of inventories amounted to RUR 5,287,160 thousand, or 21.8% of the current assets, or 4.2% of all assets of the Company. The increase was primarily caused by growing fuel prices and ramping up of fuel reserves.

Meanwhile, the inventory of other raw materials and supplies reduced by RUR 186,025 thousand in connection with sale

of excess materials from the stores of the Company branches. The primary reason for reduction of deferred expenses was writing of the costs of the property insurance contract concluded with Leader company in 2002 off for the running costs.

[8] Value-added tax on valuables acquired			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Value-added tax on valuables acquired	1,262,994	1,747,493	484,499

The cost of VAT balance increased in connection with the December 2003 start up of fixed assets the VAT on which (in

the amount of RUR 363,154 thousand) was eligible for reimbursement in January 2004.

[9] Receivables			<i>RUR'000</i>
(expected to be paid in more than 12 month from the reporting date)			
	As of 01.01.2003	As of 01.01.2004	Deviation
Buyers and customers	111,851	86,463	-25,388
Other debtors	15,124	96,510	81,386
Total	126,975	182,973	55,998

An accretion under the "Other debtors" item stemmed from MOSENERGO's granting a right to its employees to pay for

purchased quarters by installments.

[10] Receivables		RUR'000	
(expected to be paid within 12 month after the reporting date)			
	As of 01.01.2003	As of 01.01.2004	Deviation
Buyers and customers	8,822,520	6,733,120	-2,089,400
of them:			
electricity sales through FOREM within the group	734,908	647,535	-87,373
intermediaries in sales of electricity and heat	705,115	374,134	-330,981
organizations financed from the federal budget	225,496	240,315	14,819
organizations financed from budgets of the RF constituent members	2,558,893	1,928,111	-630,782
organizations financed from local budgets	368,714	319,420	-49,294
other consumers of electricity and heat	3,985,401	2,737,533	-1,247,868
other buyers and customers	243,993	486,072	242,079
Advances granted	882,957	2,150,922	1,267,965
including:			
to electricity and heat suppliers	75,376	104,146	28,770
to fuel suppliers	12,272	174,078	161,806
to material suppliers	128,949	66,642	-62,307
to building organizations	311,613	359,143	47,530
to repair organizations	74,203	1,288,333	1,214,130
to service providers	154,534	110,282	-44,252
other advances granted	126,010	48,298	-77,712
Other debtors	1,513,822	3,496,234	1,982,412
including:			
receivable penalty interest, fines, penalties	9	0	-9
overpayment of taxes to the federal budget	40,652	14,198	-26,454
overpayment of taxes to the budgets of the RF constituent members	29,946	427,163	397,217
overpayment of taxes to local budgets	42,194	36,484	-5,710
overpayments to public extra-budgetary funds	40,784	23,472	-17,312
other debtors	1,360,237	2,994,917	1,634,680
Total	11,219,299	12,380,276	1,160,977

■ A RUR 1,160,977 thousand, or 10.3%, increase of the Company's short-term receivables was caused by the following two primary reasons:

- growing amount of the advances paid;
- growing amount of other accounts receivable in connection with implementation of the Moscow Government investment program (for laying of cable lines and heating grids to municipal facilities undergoing a reconstruction).

The amount of overpaid taxes and levies rose by RUR 397,217 thousand due to the fact that the effective legislation disregards seasonality in the work of electricity enterprises.

At the same time, payables due from buyers and customers reduced considerably (by RUR 2,089,400 thousand). Such a result became possible owing to the retirement of debts of organizations financed from the budgets of the RF constituent members and local budgets, arrears of wholesale resellers and other consumers of electricity and heat.

■ The total receivables due from own consumers (RUR 6,242,263 thousand) comprise a doubtful debt in the amount of RUR 1,939,780 thousand that cannot be recovered without implementation of a long-term action program:

- RUR 1,249,645 thousand in bad debts;
- RUR 90,470 thousand in moratorium debts;
- RUR 599,665 thousand in debts of consumers undergoing bankruptcy proceedings in an external management phase.

Out of the remaining accounts receivable of RUR 4,302,483 thousand, a RUR 260,269 thousand debt was restructured.

Accounts receivable of RUR 4,042,214 thousand that are off the problematic group and not covered by restructuring agreements does not exceed 60% (18.4 days) of the average monthly sales of MOSENERGO.

[11] Short-term financial investments			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Loans granted to organizations for a term shorter than 12 months	0	0	0
Company stocks redeemed from stockholders	0	0	0
Sundry short-term financial investments	0	30,378	30,378
Total	0	30,378	30,378

The short-term financial investments in the amount of RUR 30,378 thousand originated from the acquisition of the assignment of book debt for the electricity consumed from wholesale resellers.

[12] Monetary assets			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Cash	3,038	4,026	988
Settlement accounts	1,529,945	4,432,946	2,903,001
Foreign currency accounts	18,860	12,359	-6,501
Sundry monetary assets	204,716	222,842	18,126
Total	1,756,559	4,672,173	2,915,614

The reason for such dramatic increase of the amount of monetary assets as of January 01, 2004, vis-a-vis January 01, 2003, lies in loan funds on the settlement accounts of the Company credited at the turn of the year 2003.

[13] Additional capital			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Additional capital	73,113,443	72,707,691	-405,752

The additional capital for the accounting year depleted by RUR 405,752 thousand due to retirement of a number of fixed assets that had been earlier revaluated. In pursuance of the RF Ministry of Finance's Order No. 91N "On Approval of Guidelines for Fixed Assets Accounting" dated 13.10.2003, the amount of upvalue of such assets was carried over to the retained profit.

[14] Reserve capital			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Reserve funds formed in compliance with the legislation	279,092	311,405	32,313
Reserve funds formed in compliance with the constituent documents	0	0	0
Total	279,092	311,405	32,313

A RUR 32,313 thousand gain in the reserve capital was due to distribution of the 2002 profits pursuant to the resolution of the Shareholders' Meeting in May 2003.

[15] Long-term liabilities			<i>RUR'000</i>
	As of 01.01.2003	As of 01.01.2004	Deviation
Bank credits repayable in over 12 months after the accounting date	2,921,936	2,164,955	-756,981
Loans repayable in over 12 months after the accounting date	1,167,236	583,812	-583,424
Deferred tax liabilities	382,628	595,935	213,307
Total	4,471,800	3,344,702	-1,127,098

The "Deferred tax liabilities" line reflects the amount of the deferred tax liabilities calculated in accordance with Accounting Rules 18/02 "Recording of Profit Tax Calculations" approved by the Russian Ministry of Finance's Order No. 114n of 19.11.2002 (see also the Statement of Change in the Balance-Sheet Total for 2003 on page 85).

[16] Short-term liabilities		RUR'000	
	As of 01.01.2003	As of 01.01.2004	Deviation
Loans and credit facilities	3,245,885	9,236,614	5,990,729
including:			
bank credits repayable			
within 12 months after the accounting date	2,662,461	8,653,190	5,990,729
loans repayable			
within 12 months after the accounting date	583,424	583,424	0
Accounts payable	6,680,878	7,361,706	680,828
including:			
Suppliers and contractors	2,605,028	2,900,385	295,357
of them:			
FOREM electricity suppliers	138,395	0	-138,395
other suppliers of electricity and heat	56,223	40,181	-16,042
gas suppliers	192,725	210,870	18,145
fuel oil suppliers	17,139	14,609	-2,530
coal suppliers	11,793	49,518	37,725
other fuel suppliers	7,724	17,762	10,038
building organizations	1,036,874	823,822	-213,052
repair organizations	586,870	678,108	91,238
ROSENERGOATOM Concern	0	275,419	275,419
connection fee due to OAO UES SO-CDU	0	6,968	6,968
connection fee due to OAO FGC	0	59,105	59,105
other suppliers and contractors	557,285	724,023	166,738
Accrued payroll	213,325	391,567	178,242
including: current	213,325	391,567	178,242
Debts payable to public extra-budgetary funds	97,399	92,030	-5,369
including:			
RF Pension Fund	84,022	79,371	-4,651
Federal Obligatory Medical Insurance Fund	11,736	10,258	-1,478
Social Insurance Fund	1,641	2,072	431
penalty interest and fines to public extra-budgetary funds	0	329	329
Arrears of taxes and levies	1,120,920	1,350,623	229,703
including to:			
federal budget	621,331	855,646	234,315
budgets of the RF constituent members	434,695	423,904	-10,791
local budgets	64,894	71,073	6,179
Advances received	728,598	1,103,463	374,865
including:			
from other consumers of electricity and heat	631,031	1,039,998	408,967
other advances received	97,567	63,465	-34,102
Other accounts payable	1,915,608	1,523,638	-391,970
including:			
VAT in unpaid products	1,478,374	1,336,828	-141,546
debts payable to RAO UES of Russia			
for engineering services	2,881	2,881	0
other accounts payable	434,353	183,929	-250,424
Arrears of revenues payable to shareholders	4,477	1,006	-3,471
Deferred incomes	1,895,829	2,278,514	382,685
Total	11,827,069	18,877,840	7,050,771

MOSENERGO's borrowed assets as of January 01, 2003, in the amount of RUR 7,335,057 thousand included long-term loans and credit facilities in the amount of RUR 4,089,172 thousand and short-term loans and credit facilities in the amount of RUR 3,245,885 thousand.

During 2003, the structure of the borrowed assets changed. The Company paid down long-term credits to Novo-Lyublyansky Bank and EBRD and extinguished part of accounts payable of past years, as a result of which the long-term borrowings as of January 01, 2004, totaled RUR 2,748,767 thousand (down 32.8%).

At the same time, for implementation of the Moscow Government investment program for laying of cable lines and heating grids to municipal facilities undergoing a reconstruction the Company raised new short-term funds. This resulted in a 2.8-fold increase of the short-term loans and credit facilities to RUR 9,236,614 thousand. The gross amount of borrowings accounted for RUR 11,985,381 thousand showing a 63.4% growth.

The Company's accounts payable during 2003 climbed RUR 680,828 thousand, or 10.2%. The accounts due to suppliers and contractors therewith accrued by RUR 295,357 thousand, or 11.3%.

The arrears due to gas suppliers are of the present-day nature and are connected with changes in due dates of payments for the fuel supplied by MEZHREGIONGAZ. Extinguishment of the overhaul arrears is planned for the first quarter of 2004.

An increase of the accounts payable for works and services is of the present-day nature. Pursuant to the contracts with ROSENERGOATOM Concern and OAO UES SO-CDU, the services as of January 01, 2004, have not become due for payment.

The arrears of taxes and levies are also of the present-day nature. MOSENERGO has no problematic accounts payable, concluded no payables restructuring agreements.

■ Borrowings (as of 01.01.2003)

Creditor banks	Amount borrowed	Interest rate	Principal maturity	Collateral	Purpose of borrowing
EBRD	US\$ 23,607,840	libor+3,5	15.07.2009	Power unit No.6 at TEP-26	Construction of Zagorsk PSP and corporate needs
IFC	US\$ 15,738,560	libor+3,5	15.07.2009	Power unit No.6 at TEP-26	Construction of Zagorsk PSP and corporate needs
Novo-Lyublyansky Bank	€ 1,740,800	euribor+3,375	08.08.2003	Power unit No. 2 at TEP-27	Construction of Business Center office
EBRD-II	US\$ 70,000,000	libor+4,0	28.11.2007	Debt service account	Redemption of eurobond loan and investments
Total for currency credits	RUR 3,533,148,000		<i>Currency rate: US\$ — 31.78; € — 33.11</i>		
Loan of RAO UES of Russia	RUR 1,750,279,000	10	25.12.2005	Blank	Payment of arrears to OOO Mezhhregiongaz
MMB Bank Moskvyy Commercial Bank	RUR 500,000,000	18	11.08.2003	Fuel oil at power plants	Corporate purposes
AKB Evrofinans	RUR 300,000,000	19,5	01.05.2003	Fuel oil at power plants	Financing of day-to-day operations
Agropromcredit Commercial Bank	RUR 250,000,000	20	15.04.2003	Blank	Corporate purposes
ZAO International Industrial Bank	RUR 1,001,249,000	19	31.12.2003	Bills of exchange	Corporate purposes
Commodity credit (Shatursky Agroindustrial Complex)	RUR 381,000	10	2010		
Total for ruble crediting	RUR 3,801,909,000				
TOTAL	RUR 7,335,057,000				

■ **Borrowings** (as of 01.01.2004)

Creditor banks	Amount borrowed	Interest rate	Principal maturity	Collateral	Purpose of borrowing
EBRD	US\$ 20,235,290	libor+3,5	15.07.2009	Power unit No.6 at TEP-26	Construction of Zagorsk PSP and corporate needs
IFC	US\$ 13,490,200	libor+3,5	15.07.2009	Power unit No.6 at TEP-26	Construction of Zagorsk PSP and corporate needs
EBRD-II	US\$ 58,204,370	libor+4,0	28.11.2007	Debt service account	Redemption of eurobond loan and investments
Total for currency credits	RUR 2,707,748,230		<i>Currency rate: US\$ — 29.4545</i>		
Loan of RAO UES of Russia	RUR 1,166,855,000	10	25.12.2005	Blank	Payment of arrears to OOO Mezhhregiongaz
OAO Alfa-Bank	RUR 1,002,876,710	15	11.05.2004	Blank	Replenishment of current assets
OAO Alfa-Bank	RUR 2,005,753,430	15	25.09.2004	Blank	Financing of investment program
OAO Alfa-Bank	RUR 400,986,300	15	25.12.2004	Blank	Replenishment of current assets
MMB Bank Moskv Commercial Bank	RUR 300,000,000	15	29.04.2004	Fuel oil at power plants	Corporate purposes
MMB Bank Moskv Commercial Bank	RUR 1,200,000,000	15	29.12.2004	Fuel oil at power plants	Corporate purposes
AKB Evrofinans	RUR 700,575,340	15	28.05.2004	Fuel oil at power plants	Financing of day-to-day operations
Agropromcredit Commercial Bank	RUR 65,000,000	17	09.07.2004	Blank	Corporate purposes
Agropromcredit Commercial Bank	RUR 685,000,000	17	29.07.2004	Blank	Corporate purposes
Agropromcredit Commercial Bank	RUR 750,000,000	17	23.11.2004	Blank	Corporate purposes
ZAO International Industrial Bank	RUR 1,000,205,480	15	09.12.2004	Blank	Corporate purposes
Commodity credit (Shatursky Agroindustrial Complex)	RUR 381,000	10	2010		
Total for ruble crediting	RUR 9,277,633,260				
TOTAL	RUR 11,985,381,490				

Analytical balance sheet

■ Assets, RUR'000

				Balance sheet structure, %		
	01.01.2003	01.01.2004	Deviation	01.01.2003	01.01.2004	Deviation
I. NON-CURRENT ASSETS						
Intangible assets	49	47	-2	0.00	0.00	0.00
Fixed assets [4]	95,004,616	95,578,825	574,209	79.41	75.45	-3.96
Construction in process [5]	5,366,236	6,707,036	1,340,800	4.49	5.30	0.81
Long-term financial investments [6]	69,415	86,811	17,396	0.06	0.07	0.01
Deferred tax assets	0	1,761	1,761	0.00	0.00	0.00
Section I total	100,440,316	102,374,480	1,934,164	83.96	80.82	-3.14
II. CURRENT ASSETS						
Inventories [7]	4,827,006	5,287,160	460,154	4.03	4.17	0.14
Value-added tax on valuables acquired [8]	1,262,994	1,747,493	484,499	1.05	1.38	0.33
Receivables (expected to be paid in more than 12 month from the reporting date) [9]	126,975	182,973	55,998	0.11	0.15	0.04
Receivables (expected to be paid within 12 month after the reporting date) [10]	11,219,299	12,380,276	1,160,977	9.38	9.77	0.39
Short-term financial investments [11]	0	30,378	30,378	0.00	0.02	0.02
Monetary assets [12]	1,756,559	4,672,173	2,915,614	1.47	3.69	2.22
Section II total	19,192,833	24,300,453	5,107,620	16.04	19.18	3.14
BALANCE	119,633,149	126,674,933	7,041,784	100.00	100.00	

■ Liabilities, RUR'000

III. CAPITAL AND RESERVES						
Charter capital	28,267,726	28,267,726	0	23.63	22.31	-1.32
Additional capital [13]	73,113,443	72,707,691	-405,752	61.11	57.40	-3.71
Reserve capital [14]	279,092	311,405	32,313	0.23	0.25	0.02
Retained earnings	1,674,019	3,165,569	1,491,550	1.40	2.50	1.10
Section III total	103,334,280	104,452,391	1,118,111	86.37	82.46	-3.91
IV. LONG-TERM LIABILITIES [15]						
Loans and credit facilities	4,089,172	2,748,767	-1,340,405	3.42	2.17	-1.25
Deferred tax liabilities	382,628	595,935	213,307	0.32	0.47	0.15
Section IV total	4,471,800	3,344,702	-1,127,098	3.74	2.64	-1.10
V. SHORT-TERM LIABILITIES [16]						
Loans and credit facilities	3,245,885	9,236,614	5,990,729	2.71	7.29	4.58
Accounts payable	6,680,878	7,361,706	680,828	5.59	5.81	0.22
Arrears of revenues payable to shareholders	4,477	1,006	-3,471	0.00	0.00	0.00
Deferred incomes	1,895,829	2,278,514	382,685	1.59	1.80	0.21
SECTION V TOTAL	11,827,069	18,877,840	7,050,771	9.89	14.90	5.01
BALANCE	119,633,149	126,674,933	7,041,784	100.00	100.00	

Comments on the Analytical Balance Sheet

As of January 01, 2004, MOSENERGO's total assets were RUR 126,674,933 thousand showing a RUR 7,041,784 thousand, or 5.89%, increase based on the balance of the last year.

The non-current assets of the Company grew by RUR 1,934,164 thousand, or 1.93%.

93.36% of the non-current assets are fixed assets, the depreciated cost of which at the close of the year accrued by RUR 574,209 thousand (0.60%) [4].

The sundry non-current assets run up by RUR 1,359,955 thousand (25.02%). The primary reason for such behavior is expansion of investments under the "Construction in process" item by RUR 1,340,800 thousand (24.99%) [5].

■ In the structure of the Company's assets, the share of current assets showed a healthy increase from 16.04% to 19.18% of the balance-sheet total. The reasons behind this are largely as follows: — the amount of inventories, the bulk of which are stores and supplies (fuel, spare parts, etc.), rose by RUR 460,154 thousand (9.53%) [7];

— the amount under the "VAT on acquired values" item jumped RUR 484,499 thousand (38.36%) [8];

— the Company's short-term accounts receivable grew by RUR 1,160,977 thousand (10.35%) [10]. The payables due from buyers and customers therewith reduced by RUR 2,089,400 thousand (23.68%). At the same time, the amount of the advances paid surged by RUR 1,267,965 thousand (2.4 times) substantially due to repair organizations, and other accounts receivable climbed by RUR 1,982,412 thousand (2.3 times);

— the amount of cash increased by RUR 2,915,614 thousand (2.7 times) [12].

In general, the current assets over the year grew by RUR 5,107,620 thousand, or 26.61%. The proportion of short-term receivables in the structure of the current assets decreased from 58.46% as of January 01, 2003, to 50.95% as of January 01, 2004. The share of inventories declined from 25.15% to 21.76%. The weight of monetary assets, on the contrary, run up from 9.15% to 19.23%, i.e. the share of the most liquid assets considerably advanced.

Analysis of the Company's liabilities also reveals some changes.

The content of the equity capital shrunk from 86.37% to 82.46%.

The year-end amount of borrowings ramped up by RUR 5,923,673 thousand, or 36.34%. The value of equity capital therewith increased by RUR 1,118,111 thousand, or 1.08%.

■ The gain in short-term liabilities accounted for RUR 7,050,771 thousand (59.62%) [16] and was caused by the following factors:

— the value of bank credits jumped by RUR 5,990,729 thousand (2.8 times). Such growth is connected with attraction of extra credit facilities for implementation of the Moscow Government investment program (for laying of cable lines and heating grids to municipal facilities undergoing a reconstruction), as well as with the need to replenish current assets in the period of preparation for the fall and winter seasons. Funds for servicing and repayment of credits are provided in the energy tariffs imposed in the Moscow area as from January 01, 2004;

— the Company's accounts payable climbed by RUR 680,828 thousand (10.19%). This mainly happened due to a rise in arrears of works and services, which is of the present-day nature. The weight of the accounts payable in the balance-sheet total was 5.59% as of January 01, 2003, versus 5.81% as of January 01, 2004 (the share in the short-term liabilities reduced from 56.49% to 39.00%);

— the value of deferred income run up by RUR 382,685 thousand (20.19%).

The long-term liabilities decreased by RUR 1,127,098 thousand (25.20%) largely for the account of redemption of earlier borrowings, as well as due to carry-over of part of the long-term liabilities to the short-term category [15].

Accretion of the Company's equity capital stems from successful operations during 2003 and, as a result, from gaining a net profit in the amount of RUR 1,730,981 thousand.

In general, the balance sheet structure of MOSENERGO saw no significant change, which is indicative of invariance of the Company's basic economic proportions.

■ Structure of total assets as of 01.01.2003, %

4.55

79.41	16.04
-------	-------

■ Structure of total assets as of 01.01.2004, %

5.37

75.45	19.18
-------	-------

■ Fixed assets ■ Current assets ■ Sundry non-current assets

■ Structure of total liabilities as of 01.01.2003, %

3.74

86.37	9.89
-------	------

■ Structure of total liabilities as of 01.01.2004, %

2.64

82.46	14.90
-------	-------

■ Shareholders' equity ■ Short-term borrowings ■ Long-term borrowings

Calculation of net assets (in terms of balance valuation)

	RUR'000	
Item	As of 01.01.2003	As of 01.01.2004
I. ASSETS		
Intangible assets	49	47
Fixed assets	95,004,616	95,578,825
Construction in process	5,366,236	6,707,036
Long-term financial investments	69,415	117,189
Deferred tax assets	0	1,761
Inventories	4,827,006	5,287,160
Value-added tax on valuables acquired	1,262,994	1,747,493
Accounts receivable	11,346,274	12,563,249
Monetary assets	1,756,559	4,672,173
Total assets	119,633,149	126,674,933
II. LIABILITIES		
Long-term borrowing liabilities	4,089,172	2,748,767
Deferred tax liabilities	382,628	595,935
Short-term borrowing liabilities	3,245,885	9,236,614
Accounts payable	6,680,878	7,361,706
Arrears of revenues payable to shareholders	4,477	1,006
Total assets-deductible liabilities	14,403,040	19,944,028
Net asset worth (total assets less total liabilities)	105,230,109	106,730,905

Earnings per share

	2002	2003
Net profit for the reporting year, RUR'000	646,254	1,730,981
Weighted average number of ordinary shares outstanding during the reporting year, thousand share	28,267,726	28,267,726
Earnings per share, RUR	0.0229	0.0612

The requirement to disclose information on the earnings (losses) per share is contained, in relation to Joint Stock Companies, in Accounting Rules 4/99 "Accounting Statements of an Organization" and the Guidelines for Disclosing Information on Earnings per Share as approved by the RF Ministry of Finance's Order No. 29n of March 21, 2000.

MOSENERGO issued no preference shares, therefore the basic earnings are equal to the net profit of the reporting year.

The earnings per share indicator reflects that part of the reporting period's profit that potentially can be distributed

among ordinary shareholders. It is calculated as a ratio of the net profit for the reporting year to the weighted average number of shares outstanding during the reporting year.

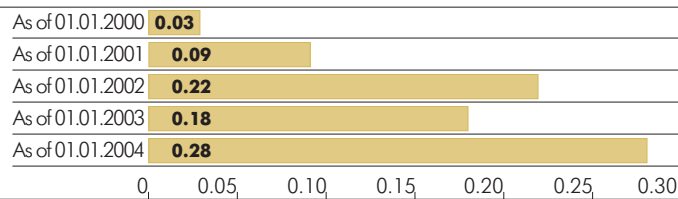
In calculating the weighted average number of shares outstanding during the reporting year, those shares that had been redeemed (purchased) by the Company, were subtracted.

Analytical Ratios

Absolute liquidity ratio

Indicates the proportion of the short-term debt that the organization can promptly pay with its cash:

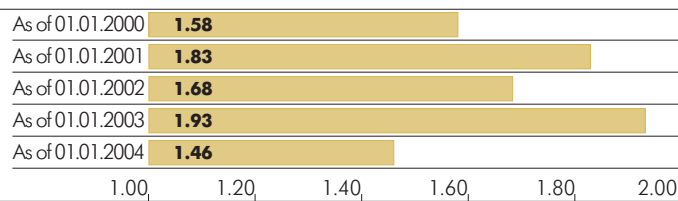
Short-term financial investments + Cash/Short-term borrowings + Short-term payables



Current liquidity ratio

Indicates the proportion of the short-term debt that can be paid with the total current assets:

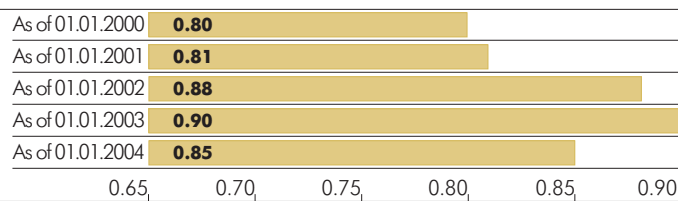
Section 2 total (CURRENT ASSETS)/Short-term borrowings + Short-term payables



Financial stability ratio

Shows which part of the assets is financed from stable sources:

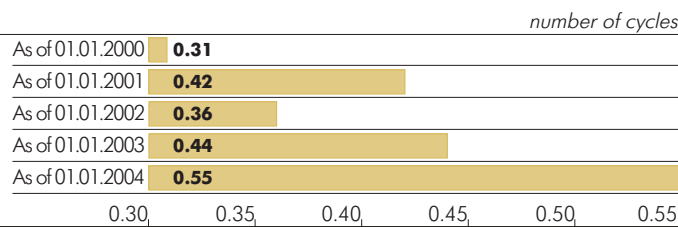
Section 3 total (CAPITAL AND RESERVES)+ Section 4 total (LONG-TERM LIABILITIES) / Balance-sheet total



Overall capital turnover ratio

Reflects the speed of circulation of the organization's total capital (in cycles per period):

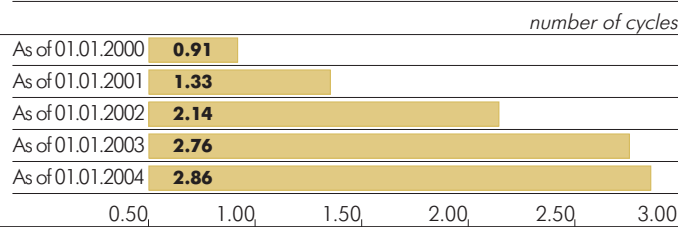
Sales proceeds / Balance-sheet total



Current assets turnover ratio

Shows the turnover speed of the organization's total current assets (both tangible and monetary):

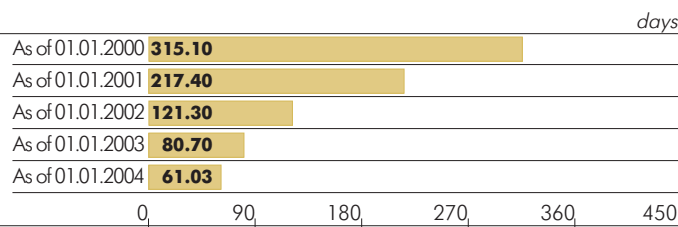
Sales proceeds/Section 2 total (CURRENT ASSETS)



Receivables turnover ratio

Indicates the efficiency with which the proceeds from sales are used, and the quality of work with debtors:

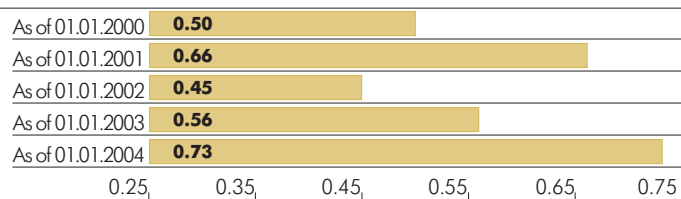
Mean receivables due within 12 months X 360/Sales proceeds



■ Capital productivity

Measures how efficiently the organization's fixed assets are used:

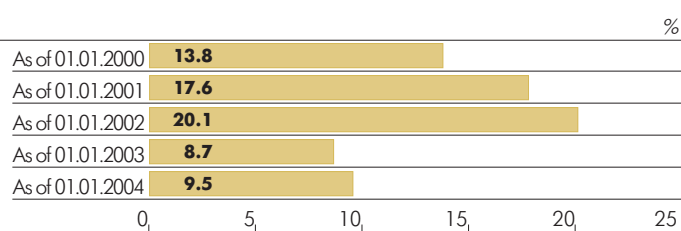
Sales proceeds/Fixed assets



■ Sales margin

Shows the profit per unit of sales:

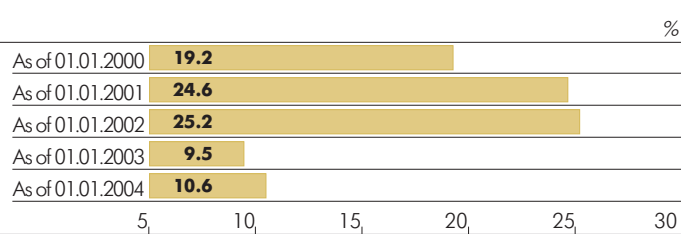
Profit on sales/Sales proceeds X 100%



■ 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%



Comments on the Analytical Ratios

The analytical financial ratios are calculated based on the accounting data for the last five years.

In general, all major indices of liquidity, stability, business activity and margins represent a positive fiscal effect of the industrial and economic activities of MOSENERGO in 2003.

The absolute liquidity ratio reached its highest value of late years and that happened because of a dramatic increase of the amount of cash on the Company's settlement accounts.

The current liquidity ratio, while still being within the standard range, slightly descended, which is caused by short-term borrowings for implementation of the Moscow Government investment program (for laying of cable lines and heating grids to municipal facilities undergoing a reconstruction).

A rise in the amount of the short-term borrowed funds with a simultaneous drop of the value of long-term loans and credit facilities also showed up in a trifling decline in the financial stability ratio. Nevertheless, this metric continue to be at a steadily high for MOSENERGO level which bears evidence of high stability of the Company in the long-term perspective.

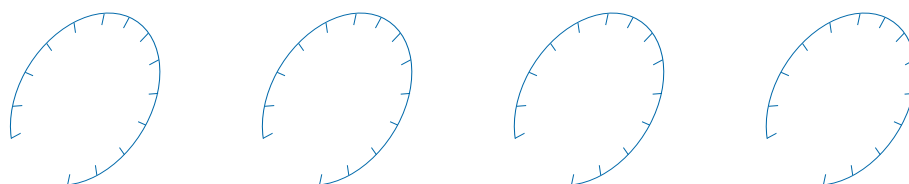
Growing sales proceeds in connection with higher average energy tariffs and greater effective sales of electricity and heat to own consumers had a positive effect on the Company's business activity indices. The overall capital turnover ratio, current asset turnover ratio and capital productivity show a sustained growth during the last few years.

A steady growth of debtors' turnover deserves a separate note.

Furthermore, based on the annual returns of 2003, the Company had managed to improve its sales and production profitability indices.

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Energy generation in 2001–2003

Power station	kWh mln			Gcal'000		
	Electricity generation			Heat dispatched from manifolds		
	2001	2002	2003	2001	2002	2003
TEP-1	368.1	391.6	395.1	2,036.3	2,079.2	2,079.1
LAPS-3	155.8	141.1	154.8	471.3	457.5	444.3
LAPS-4	7,584.5	6,305.8	6,541.9	443.9	407.0	393.9
LAPS-5	3,137.0	3,247.8	3,751.8	504.4	520.1	509.0
TEP-6	44.3	37.7	33.7	243.0	199.1	184.7
TEP-8	2,695.7	2,589.4	2,865.8	2,727.3	2,535.0	2,628.2
TEP-9	1,328.6	1,202.1	1,314.1	1,813.9	1,770.3	1,661.1
TEP-11	1,454.4	1,847.7	2,049.1	2,388.4	2,578.5	2,236.2
TEP-12	2,491.9	2,528.8	2,693.8	3,658.5	3,589.8	3,588.2
TEP-16	2,233.5	2,171.3	2,283.2	4,153.7	4,242.1	4,343.3
TEP-17	558.7	582.5	579.4	621.4	632.9	646.5
TEP-20	3,973.1	3,664.4	3,819.4	4,979.6	4,709.7	4,949.0
TEP-21	8,463.7	8,807.0	9,047.8	11,958.0	11,845.8	11,894.8
TEP-22	7,805.1	7,775.5	8,036.2	10,460.8	10,066.0	9,898.9
TEP-23	7,839.8	8,300.1	8,589.2	9,639.8	9,461.0	9,701.8
LAPS-24	1,733.9	1,544.2	1,911.5			
TEP-25	8,007.8	8,336.6	8,842.8	6,275.5	6,501.4	6,843.4
TEP-26	8,495.5	8,505.8	9,027.7	8,957.2	8,982.6	8,965.6
TEP-27	925.1	1,138.7	1,141.9	1,667.4	1,705.8	2,101.5
TEP-28	105.5	105.1	104.7	217.3	210.7	207.1
Total:						
TEP	69,402.0	69,223.2	73,183.9	73,217.7	72,494.5	73,276.6
Zagorsk PSP	1,950.6	1,961.6	1,943.6			
MOSENERGO	71,352.6	71,184.8	75,127.5	73,217.7	72,494.5	73,276.6

Tariffs for Electricity

■ Electricity Tariffs for Moscow Consumers by Dates of Approval by Moscow REC

kopecks/kWh

Consumers	Moscow REC Ordinance No. 37 dated 18.07.02	Moscow REC Ordinance No. 8 dated 14.02.2003 (as from March 1)
Budget-sponsored consumers	88.60	101.00
Urban households, electric stoves (inclusive of VAT)	63.00	74.00
Urban households, gas stoves (inclusive of VAT)	90.00	105.00
Rural households (inclusive of VAT)	63.00	74.00
Electricity-driven railroad transport	80.60	88.20
Electricity-driven municipal transport	84.00	96.60
Others (cum industry) including:		
high voltage	70.00	63.57
medium voltage	84.00	105.67
low voltage	102.00	108.80

■ Electricity Tariffs for Moscow Region Consumers by Dates of Approval by the Moscow Region EC

kopecks/kWh

Consumers	MREC Minutes No. 11 dated 19.07.02	MREC Minutes No. 5 dated 18.02.03 (as from February 20)
Base consumers	80.00	84.10
Budget-sponsored consumers	70.00	88.70
Urban households, electric stoves (inclusive of VAT)	56.00	83.00
Urban households, gas stoves (inclusive of VAT)	80.00	98.00
Rural households (inclusive of VAT)	56.00	83.00
Electricity-driven railroad transport	80.00	109.10
Electricity-driven municipal transport	70.00	113.00
Municipal power suppliers	36.60	48.00
Others (cum industry) including:		
high voltage	110.00	92.00
medium voltage	110.00	113.00
low voltage	110.00	122.00

Tariffs for Heat

■ Heat Tariffs for Moscow Consumers by Dates of Approval by Moscow REC

RUR/Gcal

Consumers	Moscow REC Ordinance No. 37 or dated 18.07.2002	Moscow REC Ordinance No. 8 dated 14.02.2003 (as from March 1)
Hot water		
Housing organizations	268	282
Budget-sponsored consumers	262	282
Industry	288	361
Others	345	435
Households (inclusive of VAT)	124	150
Steam		
Industry	286	404

■ Heat Tariffs for Moscow Region Consumers by Dates of Approval by the Moscow Region EC

RUR/Gcal

Consumers	MREC Minutes No. 11 dated 19.07.02	MREC Minutes No. 5 dated 18.02.03 (as from February 20)
Hot water		
Housing organizations	250	300
Budget-sponsored consumers	250	300
Industry	270	380
Others	300	380
Households (inclusive of VAT)	250	300
Steam		
Industry	270	438

Resolutions Made by the General Meeting of Shareholders on May 30, 2003

■ Place and date of the General Meeting

18/1 Olimpiysky Prospect, Renaissance-Moscow Hotel, Moscow, May 30 2003

■ General Meeting quorum

Total number of votes held by the holders of the Company's voting shares is 28,267,726,000.

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 (14,133,863,001 votes).

Pursuant to the Federal Law "On Joint Stock Companies", 24,318 voting ballots with the total number of votes being 28,245,691,971 have been sent to the shareholders eligible to participate in the annual General Meeting of Shareholders.

Cum ballots received before May 27, 2003, inclusive, the shareholding of the members registered for participation in the meeting personally or by proxy totaled 24,000,335,178 voting shares, or 84.97 % of

votes having the right 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.

■ Issues put to vote and voting results in respect of them are as follows

1. On Approval of the Annual Report for 2002, Annual Financial Statements, Including the Profit and Loss Statement (Profit and Loss Accounts) of the Company for 2002.

The counting of votes of the voted valid ballots showed the following results:

"For"23,621,466,105 votes
"Against"66,982,171 votes
"Abstained"305,142,550 votes

2. Distribution of profits, including payment (declaration) of dividends based on the balance of the Company's work for 2002.

The counting of votes of the voted valid ballots showed the following results:

"For"23,622,566,496 votes
"Against"67,756,981 votes
"Abstained"305,106,669 votes

3. On Payment of Remuneration and Compensation to the Members of the Company's Board of Directors.

The counting of votes of the voted valid ballots showed the following results:

"For"23,303,389,688 votes
"Against"25,418,669 votes
"Abstained"607,187,026 votes

4. 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:

B.A. Baimukhanov59,668,847 votes
A.F. Bodunkov22,512,575,645 votes
D.V. Vasiliev28,847,683,664 votes
I.T. Goryunov22,821,661,918 votes
S.S. Grechishkin81,581,810 votes

A.V. Yevstafiev25,747,051,041 votes
A.Ya. Kopsov22,567,801,358 votes
A.V. Kuznetsov20,992,070,009 votes
B.V. Nikolsky29,498,852,060 votes
Olfert Richard168,195,287 votes
V.Yu. Platonov22,513,787,641 votes
A.N. Rappoport22,494,361,332 votes
A.A. Savin22,879,938,563 votes
K.G. Seleznev90,945,250 votes
P.S. Smirnov22,504,818,896 votes
P.M. Teplukhin2,742,214,831 votes
Thorner Hodson21,153,241,498 votes
Yu.A. Udaltsov74,744,789 votes
A.A. Chabak1,204,648,619 votes
A.V. Chikunov22,487,992,240 votes
D.B. Shevtsov63,015,799 votes

Candidates who received most votes are considered elected to the members of the Board of Directors of the Company.

5. 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:

O.V. Zabrodin... "For"20,399,607,768
"Against"67,700,322
"Abstained"597,581,270
D.N. Nikitin..... "For"20,392,444,755
"Against"69,967,505
"Abstained"602,054,860

S.B. Sidorov..... "For"20,393,782,095
"Against"70,601,125
"Abstained"600,153,900
E.E. Smirnova "For"20,383,071,440
"Against"80,983,465
"Abstained"600,469,215
G.F. Shevchenko "For"20,398,607,790
"Against"67,584,230
"Abstained"598,365,170

6. On Approval of the Auditor of the Company.

The counting of votes of the voted valid ballots showed the following results:

"For"20,059,342,372 votes
"Against"74,316,331 votes
«Abstained»656,507,089 votes

7. On the Introduction of Amendments and Addenda to the Company's Charter.

The counting of votes of the voted valid ballots showed the following results:

"For"20,362,659,543 votes
"Against"99,746,464 votes
«Abstained»3,291,561,789 votes

8. On Approval of the Revised Procedure for Preparation and Holding of General Meetings of the Company Shareholders.

The counting of votes of the voted valid ballots showed the following results:

"For"20,560,395,214 votes
"Against"14,362,912 votes
«Abstained»633,151,120 votes

■ The full wordings of the resolutions made by the General Meeting are

On Item 1:

1. The Annual Report of the Company based on the 2002 results be approved;
2. The annual financial statements of the Company based on the 2002 results be approved;
3. The Profit and Loss Statement of the Company based on the 2002 results be approved.

On Item 2:

1. The following distribution of the Company's profit (loss) in 2002 be approved, RUR'000:
Unappropriated profit (loss)
of the accounting period:646,254

Be distributed to:

- Reserve capital.....32,313
- Accumulation fund94,663
- Dividends.....519,278
- Cover for losses of the past years.....—

2. Dividends on the Company's ordinary shares based on the annual returns of 2002 be paid at the rate of RUR 0.01837 per ordinary share in cash within 60 days after the date when the decision to pay the same was made.

On Item 3:

The redrafted Rules for Payment of Remuneration and Compensations to the Members of the Board of Directors be approved.

On Item 4:

The following members be elected on the Board of Directors of MOSENERGO:

1. Aleksey Feliksovich Bodunkov
2. Dmitry Valerievich Vasiliev
3. Igor Timofeyevich Goryunov

4. Arkady Vyacheslavovich Yevstafiev

5. Anatoly Yakovlevich Kopsov
6. Artem Vladislavovich Kuznetsov
7. Boris Vasilyevich Nikolsky
8. Vladimir Yurievich Platonov
9. Andrey Natanovich Rappoport
10. Alexander Anatolievich Savin
11. Pavel Stepanovich Smirnov
12. Thornber Hodson
13. Alexander Vasilievich Chikunov

On Item 5:

The following members be elected on the Audit Commission of the Company:

1. Oleg Viktorovich Zabrodin
2. Danil Nikolayevich Nikitin

3. Sergey Borisovich Sidorov

4. Yelena Yevgenievna Smirnova
5. Gregory Fedorovich Shevchenko

On Item 6:

OOO Top-Audit, Moscow, be approved as an auditor of the Company.

On Item 7:

The Company's Charter be amended as follows.

On Item 8:

The revised Procedure for Preparation and Holding of the General Meeting of the Company Shareholders be approved.

Code of Corporate Conduct — Compliance Information

■ Provision of the Code of Corporate Conduct / Observed or not observed

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.** *In practice, more than 30 days' notice is given to the shareholders.*

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 in part.**

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.**

5. Existence of a requirement in a joint stock company's charter or internal documents providing for compulsory attendance at the general shareholders meetings of 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.**

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 executive board, members of the audit commission, as well as the item of approval of the joint stock company's auditor. / **Observed.**

7. Existence of a procedure in a joint stock company's internal documents for registration of participants in a general shareholders meeting. / **Observed.**

■ 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.**

9. Existence in a joint stock company of a board of directors-approved risk management procedure. / **Not observed.** *The pertinent amendments are submitted to the General Shareholders Meeting for approval based on the annual returns of 2003.*

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. / **Not observed.** *The General Director is appointed by the Board of Directors.*

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 executive board, principal executives of the joint stock company. / **Observed in part.** *The Board of Directors determines the amount of remuneration payable to the Executive Board members, and approves the employment contract conditions.*

12. Presence of not less than 3 independent directors on the joint stock company's board of directors, meeting the requirements of the Code of Corporate Conduct. / **Observed.**

13. Absence among the members of the Board of Directors, executive bodies, control and audit ser-

vice 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.**

14. Absence among the members of the Board of Directors, executive bodies, control and audit service of a joint stock company of persons who are a shareholder, a general director (managing director), a member of a management body or an employee of a legal entity competing with the joint stock company. / **Observed.**

15. Existence of a requirement in a joint stock company's internal documents to 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.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

16. Existence of a requirement in a joint stock company's internal documents to 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. / **Not observed.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

17. 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 in part.** *In practice, meetings of the board of directors are held more frequently than required by the Charter. The pertinent amendments are submitted to the General Meeting of the Company Shareholders for approval based on the annual returns of 2003.*

18. 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.**

19. Stipulating in a joint stock company's internal documents proceedings at meetings of the board of directors. / **Observed.**

20. 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.**

21. 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.**

22. Existence of the board of directors strategic planning committee, audit committee, personnel and remuneration committee, risk committee, committee for settlement of corporate conflicts, or assignment of functions of the above committees to another committee; independent directors at the head of the audit committee, committee for settlement of corporate conflicts, remuneration committee; only independent and non-executive directors in the audit committee; no officers of the joint stock company on the committees; 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 in part.** *The Board of Directors passed a resolution to establish an audit committee.*

23. 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. / **Not observed.**

24. 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.**

25. Existence of a collegial executive body (executive board) of a joint stock company. / **Observed.**

26. Existence of a provision in a joint stock company's charter or internal documents envisaging the

requirement of the executive 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.**

27. Existence of a requirement in a joint stock company's internal documents to 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 extent. / **Observed in part.**

28. Submission by the executive bodies of a joint stock company of monthly reports on their work to the board of directors. / **Observed in part.** *The reports are submitted on a quarterly basis.*

29. Stipulating in contracts concluded between a joint stock company and its general director (management organization, managing director) and members of the executive board of their responsibility for breach of provisions concerning use of confidential and insider information. / **Observed.**

■ Major Corporate Actions

30. 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.**

31. Obligatory invitation of independent assessors to determine the market value of property involved in major transactions. / **Observed.**

32. A joint stock company's charter granting 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.**

■ Disclosure of Information

33. Existence of board of directors-approved internal documents setting forth rules of and approaches to disclosure (Regulation on Information Policy). / **Not observed.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

34. 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. / **Observed.** *The relevant requirements will be observed should the Company issue its shares.*

35. 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 in part.** *The documents are furnished as prescribed by law.*

36. Existence of a joint stock company's website and regular disclosure of information about the joint stock company on such website. / **Observed.**

37. 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. / **Not observed.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

38. 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. / **Not observed.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

39. Existence of board of directors-approved procedures for internal control over financial and business operations of the joint stock company. / **Not observed.** *The pertinent amendments will be considered by the Board of Directors after the Annual General Shareholders Meeting of the Company based on the annual returns of 2003.*

40. Existence of a dedicated unit of the joint stock company that ensures compliance with the internal control procedures — a control and audit service. / **Observed.**

41. 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.**

42. 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.**

43. 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 in part.**

44. Existence of board of directors-approved internal documents setting forth the procedure for conducting audits of the financial and business

activity of the joint stock company by the audit commission. / **Not observed.**

45. Evaluation by the audit committee of the auditor's report before it is presented to shareholders at a general shareholders meeting. / **Not observed.**

46. 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). 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. 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 website. / **Observed in part.**

Subsidiaries and Associated Companies

Name of joint-stock company (business entity)	Core activities	Amounts of investments, RUR '000	Interest in statutory capital, %
ZAO Energoinvest-ME	trade	2,249.1	90.0
ZAO Trelex	heating and electrical equipment	4.999	100.0
OOO EPA	travels, dentistry	153.375	99.92
ZAO MTR-Svyaz	telecommunications	10.455	51.0
CB Transinvestbank (OOO)	banking	23,904.9	72.44
Mosenergo-Finance B.V.	financial transactions	118.139	100.0
OAO ACB Moskovskiy Industrialny Bank (Moscow Industrial Bank)	banking	1,652.0	1.5
OOO Seba-Energo	device development	520.96	44.0
Segol Radio Page Inc	telecommunications	4,446.27	8.81
ZAO Raienergo	development of cable fittings	140.013	13.0
ZAO Moskon	production waste disposal	200.0	20.0
ZAO Unikhimtek	manufacturing of graphite products	500.000	13.08
AOZT Khoroshevskaya Energy Utility	construction of gas-turbine CHP plants	91.22	16.09
OOO EnTsentr	manufacturing of graphite products	30.0	30.0
ZAO Ekonef	development of environmental equipment	0.6	17.14
OOO Ergomaks	goods and services	0.5	24.27
OOO PKB GALS	R & D	0.205	10.0
OAO Kriokor	scientific R & D	0.25	0.59
OAO Teploset-Servis	heating utility maintenance	0.045	45.0
ZAO Kartek Association	anti-corrosion protection	0.17	2.5
ZAO Telecomenergo	telecommunications	150.0	15.0
OAO Energotekhhbusiness	trading	2.4	1.2
OAO Tovus Scientific & Production Corporation	trade and purchases	5.29	4.41
OOO IK Energogarant-Invest	investing	3,000.0	12.0
OAO SAK Energogarant	insurance	1,564.86	0.22
OAO Elektrotsentraladka	equipment setup	93.375	15.0
OAO Energomekhanicheskiy Zavod (Power Engineering Works)	manufacturing of equipment	44.732	4.37
OAO NIIVA	development of high-voltage equipment	50.794	13.31
Moscow Municipal Bank — Bank of Moscow (OAO)	banking	21,329.2	0.27
Prio-Vneshtorgbank (OAO)	banking	3.0	0.009
Savings Bank of Russia (OAO)	banking	18,914.505	0.01
ACB Pervy Investitsionny (First Investment Bank) (ZAO)	banking	843.18	1.98
MACB Vozrozhdeniye (OAO)	banking	166.317	0.02
OAO Zhilishchnaya Initsiativa Corporation	construction	4.0	12.82
MAB Temp-Bank (OAO)	banking	291.053	0.55
OAO KAMAZ	motor-vehicle construction	14.773	0.0002
ZAO Birzha Metallov (Metal Exchange)	trading	0.1	0.03
OAO GUM Trade House	trade	9.626	0.0003
OAO ACB Avtobank — NIKOIL	banking	0.3	0.00001
AOZT Akvatron	fishing	0.02	0.67
OAO Shaturtorf	production of peat	1,712.524	33.99
OAO Shaturskiy Meat Processing Plant	foods	0.891	1.1
OAO Shaturskiy Dairy	foods	9.55	12.17

Glossary

■ Abbreviations

CCP — Combined Cycle Plant
 CHP — Combined Heat-and-Power Plant
 CL — Cable Line
 DTS — Distribution transformer substation
 EBRD — European Bank for Reconstruction and Development
 FCSM — Federal Commission for the Securities Market
 FGC UES of Russia — Federal Grid Company of the Unified Energy System of Russia
 FOREM — Federal Wholesale Market of Electric Energy (Power)
 GTU (GTE) — Gas Turbine Unit (gas-turbine power plant)
 GUP — State Unitary Enterprise
 HEP — Hydro Electric Plant
 ITC — Interregional Transmission Company
 ITS — Indoor transformer substation
 LAPS — Local Areal Power Station (a historical name)
 MAC — Maximum Allowable Concentration
 MAD — Maximum Allowable Discharges
 MAE — Maximum Allowable Emissions
 MMDTs — Moscow International Business Center
 MUD — Makeup Demineralizer
 ODA — Operational Dispatch Administration
 OL — Overhead Transmission Line
 PMTS — Pole-mounted substation
 PSP — Pumped-Storage Plant
 PTL — Power Transmission Line
 PWB — Peak Water Boiler
 RAH — Regenerative Air Heater
 REC — Regional Energy Commission
 RTS — Russian Trading System
 SO-CDU UES of Russia — System Operator — Central Dispatch Unit of the Unified Energy System of Russia
 TC — Transmission Company
 TEP — Thermal Electric Plant
 UNEG — Unified National Electricity Grid
 UTS — Unitized transformer substation
 WGC — Wholesale Generation Company

■ Units of Measurement

atm (abs) — absolute atmosphere — a unit of pressure
 Gcal — Gigacalorie — a unit of calorific energy
 Gcal/h — Gigacalorie/hour — a unit of thermal power
 Hz — Hertz — electrical frequency
 kV — kilovolt — a unit of voltage
 kVA — kilovolt-ampere — a unit of transformer capacity
 kWh — kilowatt-hour — a unit of electric energy
 MW — megawatt — a unit of electric power
 toe — ton of oil equivalent

■ Terms

"5+5" Strategy

"Concept of RAO UESR's Strategy for 2003–2008" — a framework document of RAO UES of Russia for restructuring of the Russian electric power industry that stipulates main stages of restructuring, its terms and principles

Average sale tariff

An average price of electricity and heat sold to a consumer

Budgeting

A management system including financial planning and budget preparation procedures and monitoring of their implementation

Cavitation technologies

Technologies of preparation and burning of water-in-residual emulsions based on the cavitation principle (formation of small bubbles within a liquid under certain conditions that move in different patterns and interact with each other, which causes different physical and chemical effects). Substitution of quality water-in-residual emulsion for fuel oil during burning in boilers makes it possible to improve the heating boiler efficiency and to bring down atmospheric pollutant emissions

Connection fee

A fee for services in the organization of functioning and development of the Unified Energy System of Russia

Cross-subsidizing

Covering of losses that occur because of low tariffs for one of the consumer groups (households, various budget-sponsored consumers, etc.) for the account of consumers with higher tariffs

Dual-rate tariff

A tariff rate contemplating payment for the consumed electricity and connected capacity

Electricity, power flows

Transmission of electrical energy and power among regions and AO-Energos

Energy pool

A marketplace regulated by ZAO TsDR-FOREM where MOSENERGO buys electricity under contracts with suppliers in accordance with a definite tariff, volume and schedule of deliveries

Generation

Production of electricity and heat

Isolated generating plants

Electric power plants belonging to other owners and/or departments and operating parallel to AO-Energos

Minority shareholder

A shareholder whose gross shareholding in a company is less than 25%

One-part tariff

A tariff rate contemplating payment for the consumed electricity

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

Surplus (budget)

Excess of fiscal revenues over expenses

Information about the Company

■ Full corporate name	MOSENERGO Open Joint Stock Company for Energy and Electrification
Location and postal address	8 Raushskaya Naberezhnaya, Moscow 115035
Teletype	113137 USPH PU
Phone	(095) 957-3530
Fax	(095) 230-6317, 234-7082
Web address	www.mosenergo.ru
E-mail	ocb@mosenergo.elektra.ru

■ Contact phones for more information

Dmitry Valerievich Vasiliev, First Deputy General Director —
Managing Director for Corporate Policies and Property Management

Phone (095) 957-2955

Aleksey Nikolayevich Zharikov, Head of the Securities Department

Phone (095) 957-3417

■ Register holder

ZAO Spetsializirovanny Registrator Reestr-Servis (Register Service Specialized Registrar)

Address 15 Sadovnicheskaya St., Moscow, 113035

Phone (095) 234-7078

Fax (095) 234-7082

■ Auditor

RSM Top-Audit Limited Company

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