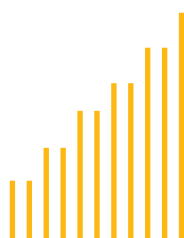


**OGK-4**  
open joint-stock company  
generation  
company  
four of the  
wholesale market of  
power and energy



## SETTING RECORDS



## Setting records

In 2007 we set records in many areas of our work. Our achievements are the result of the targeted development of the great potential of OGC-4 by its entire team. The Russian electricity industry is reaching a new level of quality; so records are not just our goal, but the only possible model of success. Today we are the leaders among the wholesale thermal generating companies and we are constantly increasing our potential.

We are confident of our success and of the future of the Russian electricity industry.



# The company

The OJSC “Fourth Generating Company of the Wholesale Electricity Market” (OGK-4) is the largest thermal wholesale generating company in Russia in terms of sales. OGK-4 is an integral part of the unified power system of Russia and a player in the wholesale electricity market. The Company is engaged in the production and sale of electricity and heat, and it also carries out heat transmission.

The total installed capacity of OGK-4 is 8,630 MW. Electricity production in 2007 reached 54.2 billion kWh and heat production totaled 2.2 thousand Gcal. The revenue of the Company for the year amounted to 31.5 billion rubles.

The generating capacities of OGK-4 comprise five power plants (the so-called GRESes — State Regional Power Plants): Surgutskaya GRES-2 (Tyumen Oblast), Berezovskaya GRES (Krasnoyarsk Krai), Shaturskaya GRES (Moscow Oblast), Smolenskaya GRES (Smolensk Oblast), and Yayvinskaya GRES (Perm Krai). The power plants of OGK-4 are located in the regions experiencing the highest growth rates of electricity consumption with a relatively well-developed grid infrastructure. Four out of five generating facilities of the Company are located in entities of the Russian Federation (RF) with the highest levels of economic and industrial development and with high potential for growth in electricity consumption.

OGK-4 was formed in the context of reorganization of the Russian electricity sector by a merger of five power stations to form a single production company. In autumn 2007 the energy group E.ON AG (hereinafter — E.ON, the concern) became the owner of 69.34% of the capital of the Company. As a result of the transaction, OGK-4 raised more than 46.5 billion rubles to finance its investment program.

The shares of OGK-4 are traded in the “B” quotation lists of Russia’s major stock exchanges MICEX (under the ticker OGK4) and RTS (under the ticker OGKD).

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## Key operating and financial indicators

Revenue

**31,461**  
million rubles

EBIT

**3,095**  
million rubles

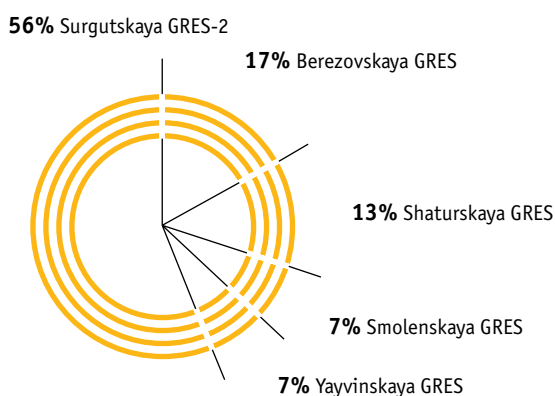
Net income

**1,489**  
million rubles

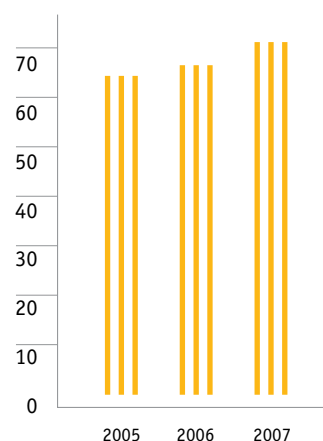
Electricity production

**+6.3% ↑ 54.24**  
GWh

OGK-4 Installed Capacity  
by Power Plants



OGK-4 Load Factor, %



**57.47** <sup>GWh</sup> +12% ↑ electricity sales

**3.9%** of total installed capacity in Russia<sup>1</sup>

**5.3%** of total electricity production in Russia<sup>1</sup>

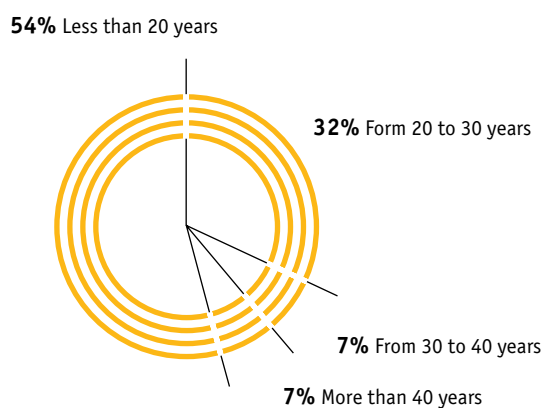
**2,400** <sup>MW</sup> of new generating capacity by 2011

**234.8** billion rubles of market capitalization<sup>2</sup>

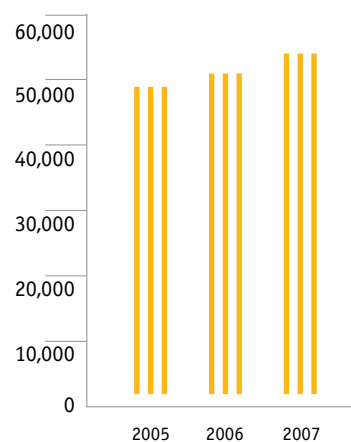
<sup>1</sup> Calculations based on data of the Ministry of Industry and Energy

<sup>2</sup> On RTS stock exchange as of December 31, 2007

**OGK-4 Installed Capacity by Age**



**OGK-4 Electricity Production, mln kWh**





**Yuri Makushin**  
*Chairman of the Board of Directors*  
 OGK-4

## Message from the chairman of the board of directors and general director

Dear shareholders, investors, and colleagues,

The time has come to sum up the results for 2007, which was in many respects a record year for our Company. The past year has been extremely significant and successful for OGK-4. We succeeded in developing our potential and consolidating our leadership position among the thermal generating companies of Russia.

The most important result of OGK-4's operations in 2007 was the record electricity generation of 54,244 million kWh, 6.3% more than in the previous year. The Company exhibited a high load factor — 71.7% — the highest among all Russian thermal wholesale generating companies. The Yavvinskaya and Berezovskaya power plants set absolute records for electricity production, not seen since Soviet times. The year 2007 has confirmed that OGK-4 is an efficient and promising company, which meets all the requirements for leadership in the production and sale of electricity in a free competitive market.

Last year OGK-4 became a part of one of the largest energy companies in the world — E.ON. As a result of the auction

for sale of a stake in the Company, conducted by RAO UES of Russia, and the sale of additional shares, the German concern has obtained about 70% of the charter capital of OGK-4. The Company has been acquired at \$753 per kilowatt of installed capacity, a record price for a Russian generating company. Under the deal the Russian electricity sector has attracted record investments — \$5.7 billion, of which \$1.8 billion are for the development of OGK-4. This once again confirms the competitive strength of the Company and the long-term prospects for the sector.

The Russian economy continues to develop rapidly. During the year we again observed a trend towards an extension of the capacity shortfall in most of the regions, in which OGK-4 operates. We have a clear understanding of how to use the positive evolution of electricity consumption to improving operational and financial results. In 2007 the Board of Directors approved the investment program for OGK-4. It provides for the construction of 2,400 MW of new generating capacity based on advanced power plants by 2011. Implementation of the investment program will be the key focus for the Company in the next 4 years.

**Andrey Kitashev**  
*General Director OGK-4*



In 2007 OGK-4 has substantially increased its presence in the competitive sector of the wholesale electricity market. This has been the result of painstaking work on the corporate procedures and regulations, the study and fine-tuning of infrastructure, and the thorough training of personnel. As a result, last year we sold 13% of the electricity produced by the Company in the competitive market, which yielded a 67% of profit on electricity sales. This high sales efficiency gives us an extra incentive for further quality improvement, as well as for more intense activity in the “free” sector of the market.

The process of reorganizing Russian electricity industry is in its final stage. Competitive and monopoly sectors have been formed, and the Russian Federation Government program for liberalization of the wholesale electricity market is being implemented. By 2011 all volumes of electricity, except volumes to households, will be sold at free market prices. OGK-4, which enjoys the lowest fuel costs among peers and operates the relatively young generating facilities, will have a vital advantage in the new market conditions.

In spite of substantial changes in the functioning of the electricity sector, OGK-4’s constant priority remains the reliability of the supplies to consumers. We clearly realize the social significance of the Company’s business and match our every step with the interests of our customers. In 2007 we completed the maintenance program and obtained certification in good time for the autumn-winter peak load period. We expect that E.ON’s experience in the competitive market will enable us to improve the quality of our business to ensure the reliability of electricity supply under the new conditions.

The progressive integration of OGK-4 into one of the leading energy companies in the world is one of the

priorities in 2008, in addition to implementation of the investment program and extending operations in the free market. Today we are making maximum effort to ensure that this proceeds as efficiently as possible and with obvious benefits for all interested parties. The merger with a world leader in the electricity industry will give us access to up-to-date management technologies and an opportunity to use the abundant experience of E.ON in building new generating capacities for the implementation of the investment program.

The colossal operational and market potential, the active collaboration of management and shareholders, the high level of professionalism and responsibility of the employees of OGK-4 will guarantee the realization of our plans and successful integration into the new market conditions.

Yours sincerely,

**Yuri Makushin**  
*Chairman of the Board of Directors OGK-4*

**Andrey Kitashev**  
*General Director OGK-4*



**Lutz Feldmann<sup>1</sup>***Member of the Management Board E.ON AG*

## Message from the member of the management board of E.ON AG

Dear colleagues and partners,

E.ON is present in 30 countries and serves 23 million customers throughout the world. Through the acquisition of OGK-4 in 2007 E.ON entered the Russian electricity market, and are delighted to be addressing you from the pages of the annual report of OGK-4. We welcome this major stage in the development of our business. First essential steps have been taken for the successful integration of the Company in the structure and the business processes of E.ON.

We entered the market for electricity in Russia at the time of its fundamental reconstruction, when the requirements were established and introduced for investments in the sector and an increase of the scale of construction of new generating capacity. The Russian market is considered one of the most promising in the world, and OGK-4 occupies one of the leading positions in the sector. For 2007 the Company has posted outstanding operating and financial results, immediately setting several operational records. OGK-4

achieved the best level among Russian wholesale generating companies for electricity generation and load capacity. Last year several power plants of the Company immediately generated the largest volume of electricity since the beginning of their operation.

It should be noted that the major achievements of the Company are attributable not only to the quality of its production assets — a significant role has also been played by the professionalism of our colleagues and their dedicated approach. Our experience of working with the management of OGK-4 has fully convinced us of this. The employees of the Company are striving to achieve excellent results, they are interested in the exchange of experience with their partners from E.ON, and they are playing an active part in the process of integration within the group. We have brought with us diversified experience and advanced management skills, which, without doubt, will very much help us to realize the accumulated potential.

<sup>1</sup> Lutz Feldmann was elected to the Board of Directors of OGK-4 at an extraordinary meeting of shareholders on 21 December 2007. He was elected Chairman of the Board of Directors of OGK-4 on 15 January 2008.

Today the first priority task for OGK-4 is the process of integrating in the E.ON. We are working actively on introducing the key principles of the group in OGK-4. We are carrying out the targeted transition to the technology of E.ON both in the existing power plants and in the context of the implementation of the new construction projects. We are developing an integrated system for risk control and a strategy of development for the existing generating capacity, which will enable the Company to improve its indicators. The next task is to improve the working conditions at OGK-4, bringing them closer to the standards established in the E.ON.

I am personally very much impressed by the professionalism of our Russian colleagues, their responsible approach to the work. It is very important for us that the employees of all the subdivisions of the group can identify themselves with our values and behaviors, as well as the vision of our company and that they realize their significance and the need for development. We all belong to

one E.ON and are always ready to welcome new colleagues from all over the world to our team.

Today our common task is that of making OGK-4 one of the leading divisions of E.ON, playing a valuable part both in the determination of the development profile of the group and in the increase in the prosperity of Russia. We see broad prospects for working in the Russian market as a whole, and also excellent possibilities for the personal and professional growth of our new colleagues. The acquisition of OGK-4, being a major investment made by E.ON, now presents the opportunity for profitable business in Russia. Based on the accumulating potential, which OGK-4 presents, we are now targeting its further development with priority.

Yours sincerely,

**Lutz Feldmann**

*Member of the Management Board E.ON AG*

# Mission

The mission of OGK-4 is to ensure a reliable electricity and heat supply to consumers, the efficient operation of our power plants in accordance with up-to-date production and management quality standards, with maximum consideration of the interests of all parties concerned.

# Strategy

The strategy of OGK-4 is focused on stable and systematic development. The main strategic tasks are to increase the shareholder value of the Company by enhancing operational efficiency and maximizing profits. OGK-4 is aiming for a gradual increase of generating capacities reflecting the pattern of demand in the electricity market.

- *Generation.* Implementation of the investment program, which envisages the commissioning of 2,400 MW of new capacity by 2012.
- *Optimization.* Maximization of profitability by cutting costs, varying the fuel balance, reducing the operating expenses, retooling the existing facilities and replacing obsolete equipment.
- *Trade.* Use of the growing opportunities in the competitive electricity market, with the introduction of effective trading technologies and strategies.

# Risks

The Company understands the potential risks to which it is exposed in the course of its business and development. It is also aware that in order to perform successfully and achieve its strategic objectives it must identify precisely and manage effectively all existing and potential risks.

The Company regards its key risks as being *industrial risks*. Reform of the electricity industry brings a number of risks, which may have a significant effect on the business and results of electricity companies such as OGK-4. Regulation of the Russian wholesale energy market is in a constant state of flux, changing the structure of both the electricity market itself and the system of relations between market participants. Even though most of those risks are systematic and beyond the control of the Company, OGK-4 is in the process of creating an effective risk management system in order to detect possible hazards at the earliest possible moment and take appropriate measures to mitigate them.

By the Company's estimate, one major industrial risk capable of significantly affecting OGK's business is the *risk of delay in the liberalization of the market* in electricity, coupled with the existing tariff policy. Under the current tariff regulation, low tariffs are set for efficient facilities of the Company, and as a result it cannot modernize and expand production facilities. At the same time the maximum load in the regulated wholesale market sector substantially limits OGK-4's ability to make additional profits in the competitive sectors of the market. Electricity market liberalization is bound to boost the Company's ability to realize its production and economic potential. OGK-4 is trying to create the maximum possible profit under current circumstances and is committed to enhancing operational efficiency by implementing programs to cut operating

costs and improve fuel efficiency in order to maintain competitiveness in any market environment.

The Company sees another major risk *in dependence on gas supplies*. As global gas prices are substantially higher than domestic ones, gas exports are the main energy strategy of the country. In this connection, there are internal gas shortages because of a limited capacity of, and supplier access to, the unified gas transportation system. The Company pays great attention to risks related to gas supplies and fuel security for gas-fired power plants, and takes measures to reduce such risks. This includes entering, when possible, into long-term gas supply agreements with independent suppliers and increasing, as far as possible, their share in the total supplies. Moreover, the Company strives to enhance fuel efficiency and improve fuel consumption at all power plants through equipment modernization. Moreover, the Company's investment program provides for commissioning new gas facilities using state-of-the-art technologies with efficiency of at least 57%, in line with the world's thermal power standards.

Although the overall average age of OGK-4 electric power plants is estimated by the Company to be below the average age of every other OGK, most of the Company's generation equipment was put into operation during the 1970s and 1980s, with the oldest power unit commissioned in 1963. Therefore, like other generation companies in the Russian electricity industry, OGK-4 has to deal with risks related to *significant depreciation of its operating assets*. To reduce these risks, the Company plans to modernize the existing generation assets and tool the current fleet with up-to-date generation equipment. The Company has produced and approved the investment program, envisaging construction of new facilities at the existing electric power plant sites,

as well as technical upgrading, reconstruction, and repair programs, which, when implemented, should noticeably increase generation equipment reliability and efficiency.

In the process of implementing the investment program, the Company may also encounter risks of *grid constraints in supplying new capacities* to the unified power system. Such problems may result from the underdevelopment of infrastructure belonging to the Federal Grid Company (FSK). Currently the risks associated with grid constraints on new capacity are difficult to predict. However, with the reorganization of RAO UES of Russia, the Company expects to have a say in coordinating strategy for the development of the grid and generating companies. OGK-4 now has an agreement in place with FSK, ensuring their mutual interests will be taken into account when generating or grid facilities are built. At the same time the Company is aware that it may be compelled to invest in building grid facilities in order to secure an outlet to the electricity system for its own new capacities.

Another category of risks the Company considers important are those related to *the volatility of the electricity market*, in particular the seasonal nature of electricity demand and its substantial daily fluctuations. Nonetheless, OGK-4's performance in the free sectors of the market

after the launch of NOREM (New Wholesale Electricity and Capacity Market) and the location of its power plants in regions with rising demand give grounds to hope that the business can continue to operate effectively during the ongoing liberalization of the market. The Company tries to predict the risks associated with demand fluctuations and formulates and applies market tactics to react effectively to any variations in market conditions.

OGK-4's current and future activities involve other substantial risks, including those associated with the regulation of the electricity sector, the state of the market for fuels, and the Company's relations with other market participants; legal risks, inter alia those arising from joint liability for the debts of the energy companies from which the power plants now belonging to the Company were spun off; national and regional risks; political, financial, market, currency, in-house, and other risks that may adversely affect the performance of OGK-4. The Company endeavors to identify such risks at the earliest possible stage and take appropriate action to mitigate and hedge against them. However, there may exist other risks of which the Company is at present unaware or which appear insignificant but could adversely affect the performance of OGK-4 in the future.

# Key events in 2007

## January

Actual start of liberalization of the electricity market.

## April

The extraordinary meeting of OGK-4 shareholders approves a resolution on the Company's capital increase and the issue of additional shares to raise funds for financing of the Company's investment projects.

## June

The Board of Directors of OGK-4 approves the investment program, which provides for the commissioning at the Company's power plants of 2,400 MW of advanced generating capacity by 2011.

## July

OGK-4 enters into the EPC contract with the GE/Gama consortium for construction of a CCGT-400 unit at Shaturskaya GRES — the first practical step in the implementation of the investment program.

## September

RAO UES of Russia divests a part of its stake in OGK-4 to E.ON. As a result of the transaction, RAO UES raises about 100 billion rubles for financing the investment programs of FSK and HydroOGK.

## October

OGK-4 completes placement of additional shares to E.ON. The company raises about \$1.8 billion for investment projects, E.ON obtains control over OGK-4.

OGK-4 enters into the EPC contract with the GE/Gama consortium for the construction of two CCGT-400 units at Surgutskaya GRES -2.

## November

OGK-4 Integration into OGK-4 into E.ON starts with the formation of working groups comprising representatives of E.ON Corporate Centre and employees of E.ON Russia Power and OGK-4.

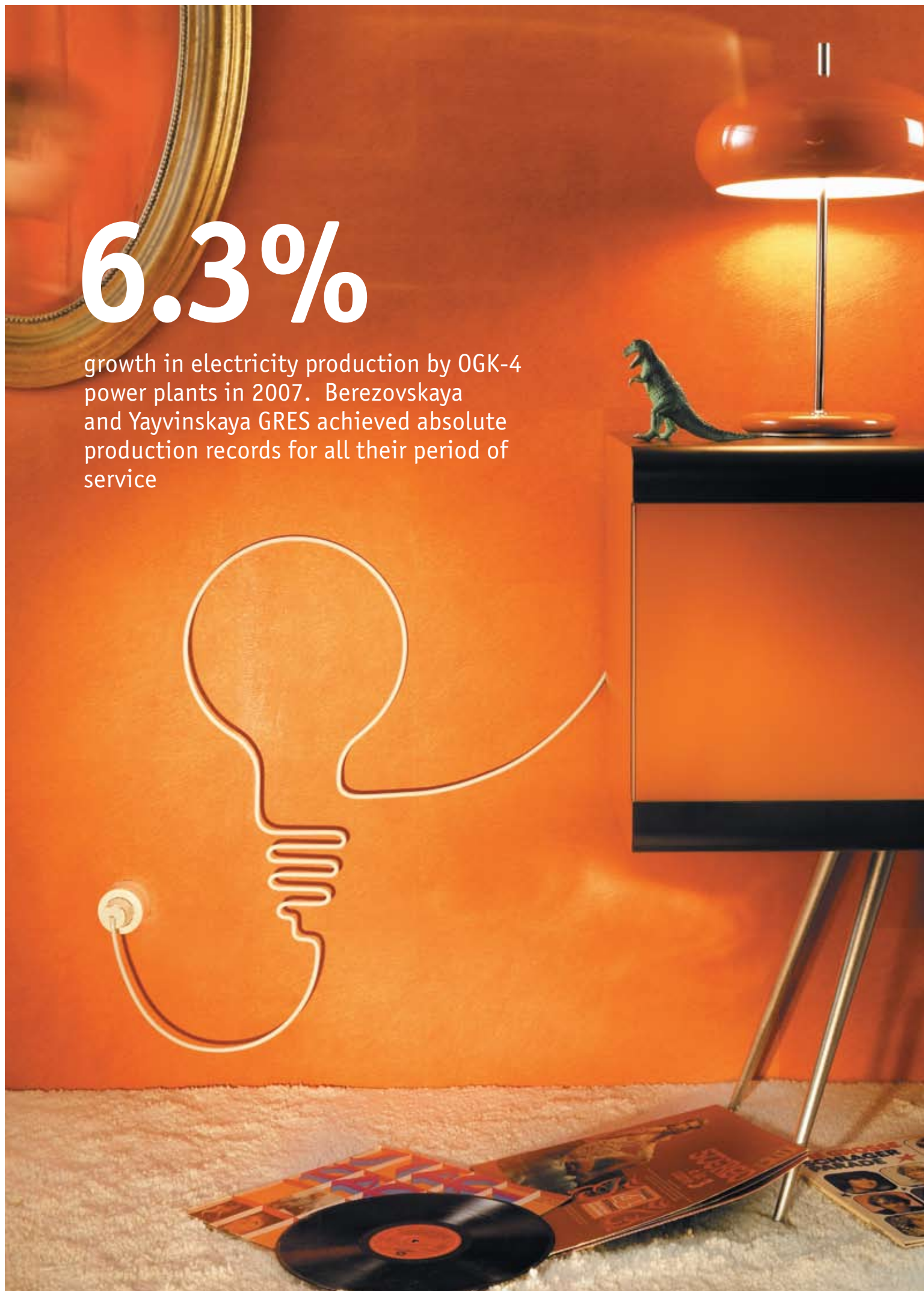
## December

OGK-4 holds extraordinary Meeting of Shareholders initiated by E.ON as the new majority shareholder. Election of the new Board of Directors of OGK-4.



# 6.3%

growth in electricity production by OGK-4 power plants in 2007. Berezovskaya and Yayvinskaya GRES achieved absolute production records for all their period of service



# The macroeconomic situation and competitive environment

## MACROECONOMICS AND THE ELECTRICITY INDUSTRY'S INDICATORS

In 2007 the Russian economy continued its steady evolution, achieving record growth rate for the last 9 years. According to the Federal Statistics Service (Rosstat), GDP growth in Russia amounted to 8.1% as of the end of the year. This mainly resulted from high global commodity prices as well as from the increased inflow of foreign capital into the Russian economy and from the growth of domestic industrial production and consumption.

According to the Ministry of Economic Development and Trade (MERT), the net inflow of private capital into the country exceeded \$82 billion, a more than 40% increase over 2006. Direct foreign investments amounted to \$45 billion, while the Index of Industrial Production exhibited 6.3% growth compared to 2006. A stable budget surplus (5.4% of GDP) was maintained.

Inflation in Russia reached 11.9% in 2007, the highest figure for the previous three years. The main reasons for the high inflation were the increase of consumer prices for food products, inflation on global markets, and the continuing growth of personal incomes in Russia. According to Rosstat, the average monthly salary in January 2008 amounted to 15,050 rubles, an increase of 30.3% over the comparable period of 2007. The real disposable income of the population for the same period rose by 12.9%.

The debt policy of Russia in 2007 was aimed at a gradual reduction in the foreign debt and replacement of it by internal borrowing. According to the MERT estimates, on January 1, 2008, the state foreign debt had decreased by 19.4% to \$45 billion. In 2007 the international rating agency Standard & Poor's confirmed the long-term credit ratings of Russia on liabilities in foreign currency at "BBB+" level, and on liabilities in the national currency at "A" level. The agency's outlook is "Stable".

According to the Ministry of Industry and Energy, electricity production in Russia in 2007 reached 1,010 TWh, which exceeds the 2006 figure by 1.9%. Thermal power stations produced 675.65 TWh, hydro power stations 179.01 TWh, and nuclear power stations 159.79 TWh. The share of thermal generation in overall electricity production amounted to 66.6%, nuclear generation — 15.7%, and hydro generation — 17.6%.

Electricity production increased in the Volga Federal District (+4.3%), in the North-West (+4%), South (+3%), Urals (+1.2%), and Central Districts (+1%). Electricity production fell in the Far East and Siberian Federal Districts by 1.3% and 0.4% respectively.

The consumption of electricity in the country, according to figures from Rosstat, rose by 2.3% and amounted to 1.003 TWh.



## KEY MARKETS

OGK-4 produces and supplies electricity to the wholesale market. In the current stage of market liberalization, most of the electricity produced by the Company is sold at regulated prices to supply companies in the regions where OGK-4 power plants are located. Therefore the volumes and pattern of electricity production by OGK-4 are mainly driven by regional demand. In the future, with an increase of the competitive sector's share of the wholesale electricity market, the Company's production will depend mainly on the competitiveness of its generating facilities.

The present generating capacity of OGK-4 is concentrated in 5 Russian regions — Tyumen Oblast, Krasnoyarsk Krai, Moscow Oblast, Perm Krai, and Smolensk Oblast. With the exception of the latter, these are some of the most highly developed territories in Russia. All the regions in which the Company operates are experiencing stable and constantly growing electricity demand. In this context the Tyumen and Moscow Oblasts, as well as the Perm Krai, are already short of electricity at present. There is an electricity surplus only in Smolensk Oblast.

### Tyumen Oblast — Surgutskaya GRES -2

The area of the Tyumen Oblast is 1,464,200 sq.km. The population is 3,334,200 as of the end of 2006.

The rise in the industrial production index in the Tyumen Oblast in 2007 (for "Extraction of minerals", "Processing industries", and "Production and distribution of electricity, gas, and water") amounted to 0.7% (due to the low figures for the Yamalo-Nenets Autonomous Okrug (YNAO), which forms part of the Tyumen Oblast; the Tyumen Oblast excluding the YNAO recorded an increase of 10.3%). Electricity production in 2007 increased by 3.4%. Residential housing starts in that year reached 1,939,600 sq.m (+13.4%).

In 2007 Tyumen Oblast joined the list of 14 RF entities with index of consumer prices less than 110.9%. The average level of inflation in the Tyumen Oblast during this period amounted to 8.9%. Real wages in the region grew by 11.1% compared to the level of the previous year. The average nominal salary in November 2007 amounted to 27,547 rubles (20.5% up on the comparable period of 2006).

Investments in fixed assets in January–November 2007 in Tyumen Oblast amounted to 583.7 billion rubles (17.4% up on the comparable period in the previous year). Moody's rating agency assigned the Tyumen Oblast a long-term credit rating on the national scale at level A1 (rus) and a short-term credit rating at level RUS-1.

The installed capacity of Surgutskaya GRES-2 is 4,800 MW. Surgutskaya GRES-2 is the largest thermal power station on the Eurasian continent. The fuel used is local associated gas, a by-product of oil production. In 2007 the power plant produced 34,409 million kWh of electricity, 39.3% of the total electricity volume produced in the Tyumen Oblast.

The competitors of Surgutskaya GRES-2 on the local market are Surgutskaya GRES-1, operated by OGK-2, and Nizhnevartovskaya GRES, operated by OGK-1, as well as gas-fired power plants of TGK-10.

### Krasnoyarsk Krai — Berezovskaya GRES

The area of the Krasnoyarsk Krai is 2,339,700 sq.km (without taking into account Taimyr and Evenkia, which have been part of the territory since January 1, 2007 as municipal regions). The population of the territory at the beginning of 2007 amounted to 2,893,700.

The industrial production index for "Extraction of minerals", "Processing industries", and "Production and distribution of electricity, gas, and water" in January–December 2007 amounted to 104.1%. The Krasnoyarsk Krai is characterized by a high proportion of the industrial production in the economy (up to 60% of the GDP), dominated by metallurgy, which accounts for about 2.6% of national exports. Electricity production in the krai increased by 4.5% in 2007. New housing starts in 2007 grew by 26.3%.

According to Standard & Poor's, economic growth in the krai remains moderate: in 2004–2007 it averaged 4.7% and will probably remain at this level for the next few years. Implementation of large-scale investment projects in oil and gas production, as well as in aluminum production, and the commissioning of new generating and grid facilities in electricity industry would lead to the acceleration of economic growth rates in Krasnoyarsk Krai. The first results of the implementation of these projects are expected to arrive in 2010–2011.

In 2007 Standard & Poor's assigned Krasnoyarsk Krai a "BB+" credit rating on the international scale and "ruAA+" at the national scale. Outlook "Stable". The growth rate of investments in fixed assets in January–November of 2007 amounted to 17.8% over the comparable period of the previous year.

The average monthly nominal salary in November 2007 compared with November 2006 grew by 23.2% and reached 15,023 rubles. The composite index of consumer prices in December 2007 amounted to 109.2% (inflation 9.2%).

The installed capacity of Berezovskaya GRES is 1,500 MW. In 2007 the power plant produced 8,529 million kWh of electricity, which is approximately 15% of the total

electricity produced in Krasnoyarsk Krai. The power plant is a pivotal enterprise for the town of Sharypovo. It is one of the newest thermal power plants in Russia (units commissioned in 1987–91). The fuel (brown coal) is supplied to the power plant directly from the Bereзовский-1 open coal pit (Kansk-Achinsk coal basin) by two 14-kilometer belt conveyors. The planned output of the coal pit is 55 million tons of coal per year. In just one hour 4,400 tons of coal are supplied to the power plant.

Berezovskaya GES produces and sells electricity in the Siberia region within the second pricing zone. Competitors: Krasnoyarskaya GES-2 operated by OGC-6, Kuzbassenergo (TGC-12), TGC-13 (Yeniseyskaya TGC), as well as the regional hydro power plants, including Sayano-Shushenskaya GES, the largest in Russia.

#### **Moscow Oblast — Shaturskaya GES**

The area of the Moscow Oblast is 46,000 sq.km, with a population of 6.65 million. Some 80,000 new jobs are created in the oblast every year.

By the end of 2007 the gross regional product exceeded 1 trillion rubles (882.1 billion in 2006). The industrial production index for “Extraction of minerals”, “Processing industries”, and “Production and distribution of electricity, gas, and water” in the Moscow Oblast in 2007 grew by 13.4% compared with the index for the previous year. In this context electricity production fell by 0.5%. Residential and industrial building and construction of social facilities are in a phase of active growth. In 2007 7.6 million sq.m of residential housing were built (+17%). Modernization and technical refurbishment of the production infrastructure are proceeding successfully.

The Moscow Oblast is an attractive region for investment with Standard & Poor’s credit rating of “BB”, and “Positive” outlook. Investments in 2007 grew by 1.5 times, to more than 400 billion rubles. Foreign investments have contributed more than \$5 billion. Investments in fixed assets in industrial enterprises account for about 40% of the total investments in the economy of the Moscow Oblast.

The growth in inflation in the Moscow Oblast in 2007 was 13.3%. Average monthly nominal salary in the oblast in November 2007 amounted to 15,575 rubles (an increase of 33.8% compared to 2006).

The Moscow energy system is the largest in Russia; the installed capacity of all power stations in the region is 16 GW. The annual electricity consumption growth rate is 5–6% on average.

The installed capacity of Shaturskaya GES is 1,100 MW. In 2007 the power plant produced 4,911 million kWh

of electricity, which is approximately 19.6% of the total electricity volume produced in the Moscow Oblast.

The main types of fuel used by the power plant are gas, coal, and peat. Thanks to the commissioning of the new CCGT capacity provided for by the OGC-4 investment program, Shaturskaya GES would raise its operational efficiency and also substantially improve its ecological security.

The main competitors for Shaturskaya GES are Kashirskaya GES, which is also located in the Moscow Oblast and is operated by OGC-1, and the largest power plants in the Central Region — Ryazanskaya GES (OGC-6) and Cherepetskaya GES (OGC-3), as well as power plants of Mosenergo (TGC-3).

#### **Smolensk Oblast — Smolenskaya GES**

The area of Smolensk Oblast is 49,786 sq.km. The population is 993,500.

The industrial production index in 2007 for “Extraction of minerals”, “Processing industries”, and “Production and distribution of electricity, gas, and water” increased by 10.4% compared to the previous year. Residential housing with total area of 300,100 sq.m, 1.0% more than in 2006, was brought into use.

Investments in fixed assets in the 9 months of 2007 amounted to 12.2 billion rubles. In May 2006 “RA Expert” and the AK&M Consortium assigned the oblast a “B++” rating, outlook “Stable”: the Smolensk Oblast has been recognized as a borrower of investment class. The region fulfils its obligations in terms of commercial bank credits and loans from legal entities regularly and in full.

In December 2007 the consumer prices index rose by 14.4% compared to December 2006. Real incomes per capita rose in January–November 2007 by 19.5% over the comparable period of 2006. The average monthly salary in January–November 2007 amounted to 9,236 rubles, which is 23.7% higher than in January–November 2006.

The energy system of the Smolensk Oblast is in surplus (about 20%), which makes it possible to meet consumer demand in the area and neighboring regions. Grid infrastructure is represented by, inter alia, the “Russia–Belarus–Western Europe” high-voltage power bridge, which passes through the Smolensk Oblast. In 2007 the Smolensk energy system had the second-greatest rate of growth of consumption of energy in Russia (+16.5%).

The installed capacity of Smolenskaya GES is 630 MW. In 2007 the power plant produced 2,099 million kWh of electricity, which is about 8.8% of the total electricity

volume produced in Smolensk Oblast. The main types of fuel are natural gas and coal.

Competition for the Smolenskaya GRES comes primarily from regional generating facilities in the Smolensk Oblast. The substantial reserve margin of Smolenskaya GRES makes it possible to expect additional earnings once a balancing market and a capacity market are launched.

### **Perm Krai — Yayvinskaya GRES**

The area of Perm Krai is 1,602,400 sq.km. The permanent population of the krai on January 1, 2007 amounted to 2,730,900.

The industrial production index for “Extraction of minerals”, “Processing industries”, and “Production and distribution of electricity, gas, and water” grew from the level of 2006 by 5.1%. Electricity production in 2007 increased by 19%. According to the past year’s figures, the area of residential housing added was 22.2% up over 2006 (878,100 sq.m).

Perm Krai is one of the most investment-attractive regions in Russia. In 2007 Moody’s agency assigned Perm Krai a long-term credit rating “Aa1.ru” at the national scale (“Ba1” — long-term credit rating in terms of foreign currency obligations). Investments in fixed assets in January–November 2007 amounted to 76.7 billion rubles.

The average monthly nominal income of the population of Perm Krai in November 2007 amounted to 11,592 rubles per capita (+24.3% up over the comparable period of 2006). In 2007 Perm Krai experienced high inflation: 16.4%.

In 2007 total electricity production in Perm Krai amounted to 33,900 million kWh, a 19.0% increase over the 2006 level.

Expected average electricity consumption growth rate in the Perm Krai amounts to 2.5% a year on a base-case scenario and 3.4% on an optimistic scenario. According to some forecasts, electricity consumption would increase by 1.66 times (base-case scenario) and by 2.04 times (optimistic scenario) by 2025 compared with 2005.

The installed capacity of Yayvinskaya GRES is 600 MW. In 2007 the power plant produced 4,296 million kWh of electricity, which is approximately 12.6% of the total electricity volume produced in the Perm Krai.

In 2007 Yayvinskaya GRES ran almost entirely on natural gas; however, the equipment at this power plant allows switching to coal-fired mode. The power plant plays an important role in maintaining a reliable electricity supply to major oblast enterprises such as Uralkaliy, Silvinit, Avisma, Solikamskumprom, Sverdlovsk Railways, and also the cities and populated areas of the northern part of the Perm Krai.

The principal competitors of Yayvinskaya GRES are Permskaya GRES and Irikliinskaya GRES, both operated by OGK-1, as well as Serovskaya GRES (OGK-2) and the regional generating facilities of TGK-9.

OGK-4 intends to realize its significant potential in all segments of the wholesale market. The company is using the favorable geographical location of its power plants to the best advantage, and intends to improve operating efficiency and to strengthen its competitive advantages in the regions where it operates. This should be facilitated by the implementation of OGK-4’s investment program, which provides for the construction and commissioning of new generating capacities mainly in regions experiencing power shortages.

# Production

## PRODUCTION CAPACITIES

The production capacities of OGK-4 are based on five power plants with a total installed capacity of 8,630 MW/2,179.3 Gcal/h. The generating assets of the Company account for about 3.9% of Russia's total installed capacity and for approximately 5.7% of thermal generation<sup>1</sup>.

OGK-4 devotes much attention to modernizing its generating facilities and keeping them in working order. The Company intends to extend the lifespan of generating equipment and does not plan to decommission existing capacities in the medium term. Moreover, according to the

investment program, it intends to build 2,400 MW of new advanced generating facilities by 2011.

## PRODUCTION OF ELECTRICITY

In 2007 OGK-4's power plants produced 54,244 million kWh of electricity, a 6.3% increase over the level of 2006. The positive production trend is attributable to a number of factors, including an increase in electricity consumption in the regions where the Company operates, a slump in the production of the hydro power plants in Siberia and also a reduction of the overhaul and repair periods of the Company's generating equipment.

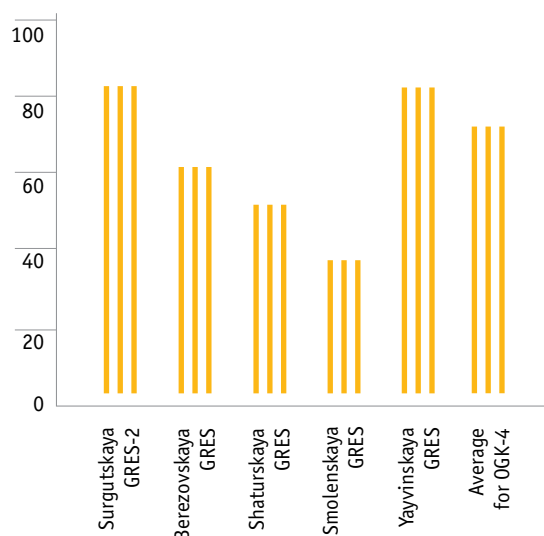
From the point of view of electricity generated, 2007 was a record year for two of OGK-4's power plants. Thus Berezovskaya GRES increased production in 2007 by 23.2% to 8,529 million kWh and the power plant set the absolute record for electricity production from commissioning of its first generating unit, having generated over 100 billion kWh to date.

2007 was also a record year for Yayvinskaya GRES. The power plant produced 4,296 million kWh, which is a record for its annual production starting from its commissioning. Electricity production at Yayvinskaya GRES grew by 5.4% compared to 2006, and its share in the Company's electricity production reached 7.9%.

Electricity production increased at all OGK-4's power plants except Smolenskaya GRES, where it fell by 12.1% because of insufficient loading by the System Operator.

The structure of OGK-4's electricity production did not change substantially. 79.1% of total production came from the Company's largest and modern generating facilities —

OGK-4 Power Plants Load Factor 2007, %



<sup>1</sup> Calculations based on RF Industry and Energy Ministry data

Surgutskaya GRES -2 and Berezovskaya GRES. These plants have the most efficient equipment and electricity from these stations is in demand in the market. This leads to an increase in loading the equipment by the System Operator and accordingly to increased electricity production.

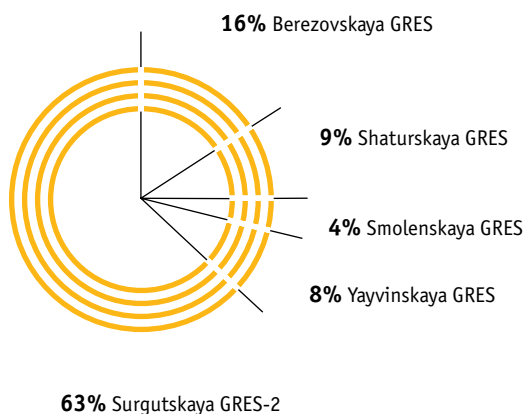
In 2007 the load factor for OGK-4 grew by 4.2% and reached a record 71.7%. This figure is the highest among all thermal wholesale generating companies in Russia and is evidence of the high competitiveness of OGK-4's assets. Berezovskaya GRES showed the greatest increase in load factor: from 52.7% to 61.6%. At Surgutskaya GRES -2 the load factor rose by 3.5%, reaching 81.7%, the highest among all power plants of OGK-4.

## PRODUCTION OF HEAT

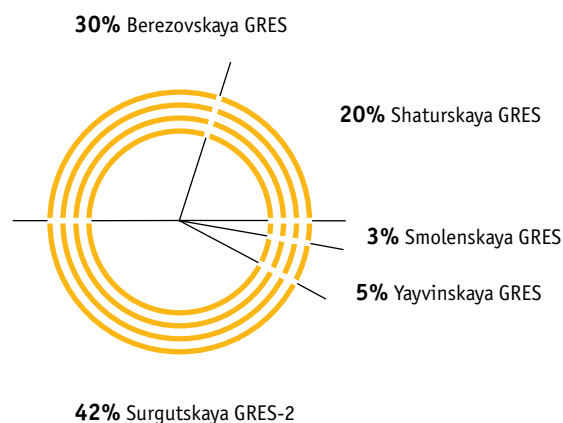
In 2007 the Company's power plants produced 2,233 thousand Gcal of heat, 10% less than in 2006. The reduction in heat production was due to higher ambient air temperature in the autumn-winter peak period compared with the similar period of the past year.

Within the next few years the production of heat by OGK-4 is expected to grow. At present OGK-4 is implementing the construction of a second heat-distribution complex at Surgutskaya GRES-2, which should be completed by the beginning of the 2008–2009 autumn-winter peak load period. The projected capacity is 160 Gcal. The additional heat volumes will be supplied to the needs of the Surgut residential sector, in which residential construction activity is growing rapidly.

**OGK-4 Electricity Production  
by Power Plants, 2007**



**OGK-4 Heat Production  
by Power Plants, 2007**



## FUEL SUPPLY

### Structure of the fuel balance

The fuels used for electricity production at OGK-4's power plants are gas, coal, peat, and fuel oil. Gas accounts for most of the fuel balance of the Company: 82.5% of total fuel consumption in 2007.

Monofuel Surgutskaya GRES-2 is the largest consumer of gas. The power plant runs mainly on associated gas supplied from the oil fields located in proximity to Surgutskaya GRES-2. In 2007 the power plant used approximately 8.95 bcm of gas, 5.6% more than in 2006.

Berezovskaya GRES also uses only one type of fuel. The station burns brown coal, supplied by two conveyor belts from the Berezovskiy-1 open coal pit 14 km away.

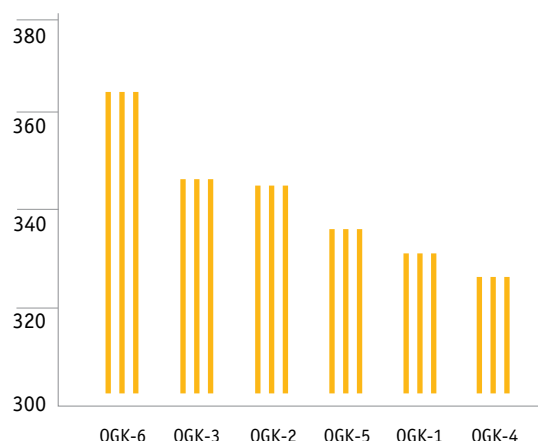
Consumption of coal by Berezovskaya GRES in 2007 amounted to 5,170 thousand tons.

Gas has been the main fuel for the three other power plants in recent years. In 2007 the share of gas in the fuel mix of Shaturinskaya GRES was over 92%, of Smolenskaya GRES over 95%, and of Yayvinskaya GRES over 99%.

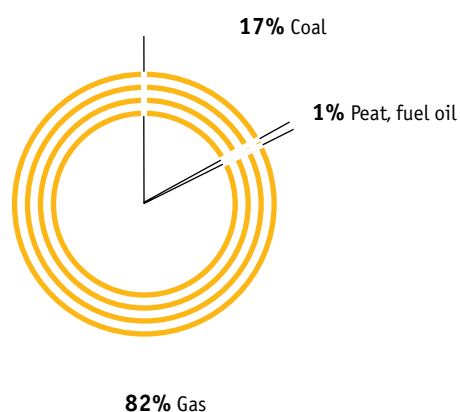
In total, OGK-4 used about 12.3 bcm of gas, 5,240 thousand tons of coal, 6 thousand tons of fuel oil, and 360 thousand tons of peat in 2007.

Depending on the fuel price situation in the regions where the power plants operate, the Company is considering the possibility of switching Shaturinskaya, Smolenskaya, and Yayvinskaya GRES to coal. This approach to the structuring of the fuel balance will allow the Company to be more flexible in the face of commodity price volatility.

OGKs' Fuel Consumption Rates,  
goe/kWh



OGK-4 Fuel Mix, 2007



## Fuel purchases

The Company's key supplier of fuel is Surgutneftegaz, which provides about 47% of OGK-4's fuel consumption. Surgutneftegaz is the main supplier of gas to Surgutskaya GRES-2. Other major suppliers of gas include the regional enterprises of Gazprom, and the independent gas producer Novatek. The key supplier of coal for the Company is SUEK, which supplies brown coal to Berezovskaya GRES.

OGK-4's fuel purchasing strategy is aimed at strengthening long-term relations with the most important fuel suppliers. OGK-4 also seeks to set efficient conditions of fuel supplies. Implementation of the investment program confronts the Company with the problem of timely fuel supplies for the new generating capacities. It is expected that all generating units will be fully supplied with fuel by start-up. For this purpose, OGK-4 is negotiating with the suppliers of gas and coal for increased volumes. A vital factor for success in this area may be the partnership relations of the Company's controlling shareholder, E.ON, with the key players in the Russian gas market.

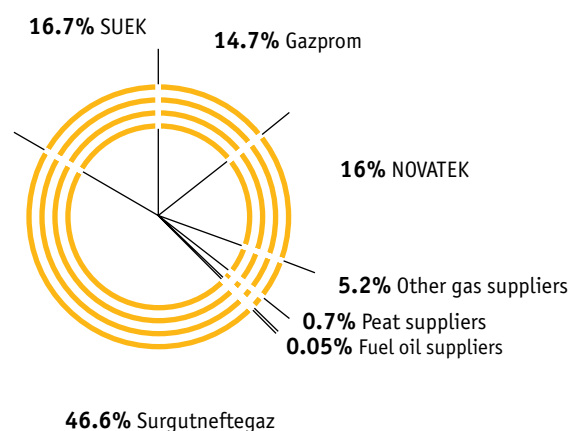
## Share of fuel cost in electricity tariff set by FTS for 2007

Power plant	Share of fuel cost	Share of other cost in FTS tariff
Surgutskaya GRES-2	98.6%	1.4%
Berezovskaya GRES	97.3%	2.7%
Shaturskaya GRES	98.8%	1.2%
Smolenskaya GRES	98.4%	1.6%
Yajvinskaya GRES	98.0%	2.0%

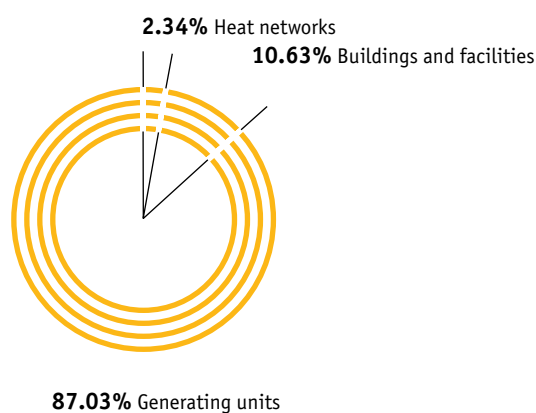
## MAINTENANCE

Every year the Company plans and approves a maintenance program for the main generating equipment. Maintenance ensures the reliable operation of the generating equipment, and also extends its life. The maintenance program is based on preliminary test-runs on the production equipment and takes into account regulatory requirements as well as many years' experience of the personnel in operating the equipment.

### Main Fuel Suppliers, %



### Maintenance Costs Structure, 2007





Repair and maintenance expenses at OGK-4 power plants in 2007 amounted to 2,476.3 million rubles. All planned repairs and maintenance works were carried out.

In 2007 the Company carried out maintenance activities on power plants totaling 8,630 MW: 1,750 MW was completely overhauled, 1,720 MW underwent intermediate maintenance, and 5,160 MW received routine maintenance.

Internal resources were used for 20.15% of the repair and maintenance works, while for the remaining 79.85% the Company engaged subcontractors. Such subcontractors were selected on a competitive basis.

In 2007 OGK-4 introduced a six-year repairs and maintenance cycle for all power units. The system for planning repairs is based on evaluation of financial risks and of consequences of possible emergency shutdowns. This organization of repairs and maintenance will make it possible to adapt to the conditions of the competitive electricity market and to reduce the periods and costs of repair campaigns.

## INFORMATION TECHNOLOGIES

OGK-4's IT strategy is aimed at improving the efficiency and reliability of the Company's operations. In 2007 OGK-4

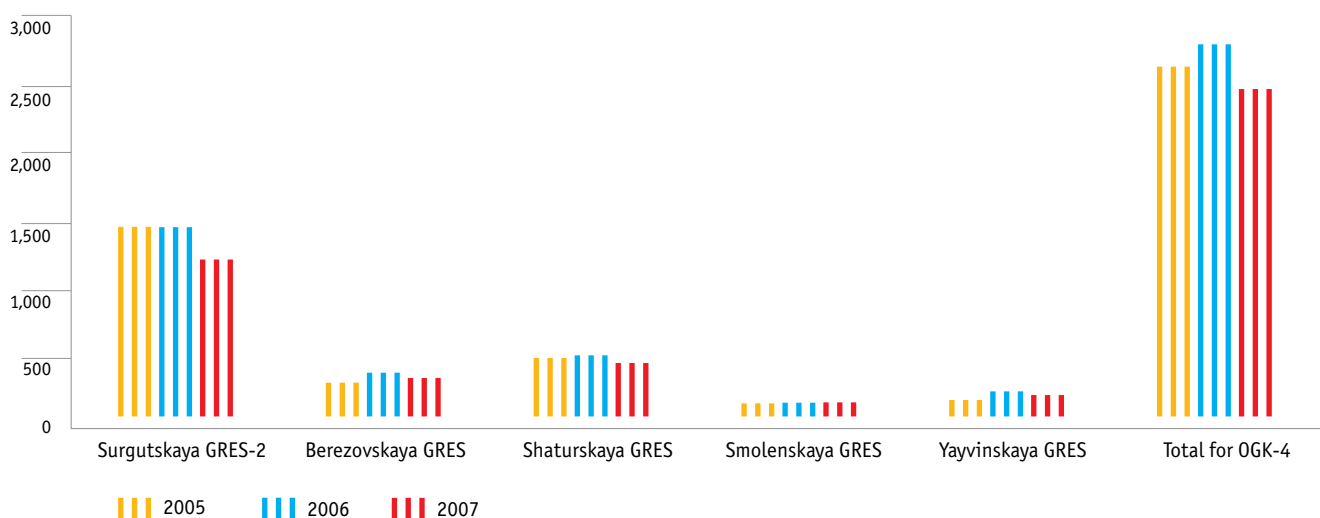
created and brought into active use the Unified Data Area on the Microsoft Dynamics AX platform, making it possible for subdivisions to interact in real time and supporting balanced decision-making.

The Company also set up a Data-processing Centre (DPC), incorporating the previously created telemetry systems, station computer networks, emergency recorders, communication channels with the Regional Control Centre and terminals for balancing market participation. All newly created elements of the Company's IT-infrastructure will be connected to the DPC.

OGK-4's priority in the area of information technologies is to maintain uninterrupted operation of IT systems vital for business under conditions of electricity market liberalization, to make the Company more competitive in the new market. In particular, the Company is carrying out the automation of electricity production control, the introduction of automated commercial accounting for electricity at the power plants in real time and the development of a system of support for commercial operations on the new wholesale electricity market.

In light of the implementation of the Company's investment program, OGK-4 has planned to bring in Primavera software, which makes possible efficient

### Maintenance Costs, mln rubles





management of new unit construction processes and centralized monitoring of program execution.

## PROCUREMENT

In 2007 98% all OGK-4's procurement purchases were held on the basis of competitive tenders, which is 22 p.p. above the 2006 figure. The company held 440 open tenders, 89% of which were held in the "B2B-Energo" electronic trading system.

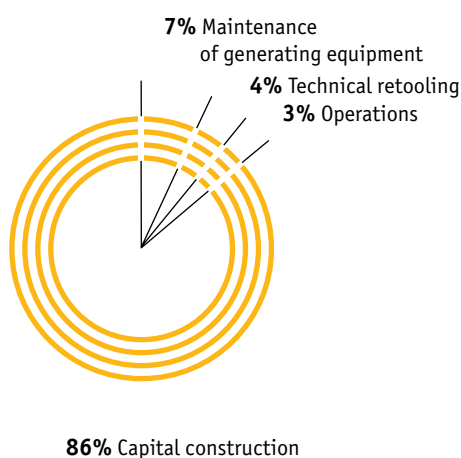
During the year regulated purchasing procedures were held in the following areas of activity:

- capital construction;
- maintenance of generating equipment;
- technical retooling;
- operations.

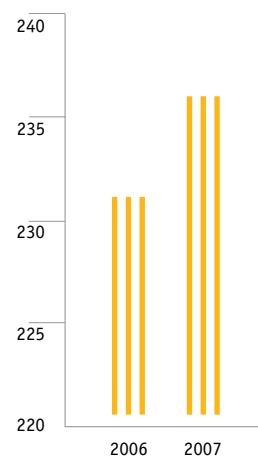
The total volume of procurement tenders for basic activities and the capital investments by OGK-4 in 2007 amounted to 49.86 billion rubles. Purchase efficiency (final price of lots against the initial price) amounted to 263 million rubles. The portion of unscheduled purchases fell from 15.4% to 8.3% compared with 2006.

OGK-4's priorities in procurement are the integration of the Company's purchasing practices with E.ON, a gradual transition to long-term contracts with suppliers and also the introduction of the Axapta automated control system in the Procurement section.

Procurement Structure, 2007



Procurement Efficiency, mln rubles



# Electricity and heat sales

## SALES OF ELECTRICITY

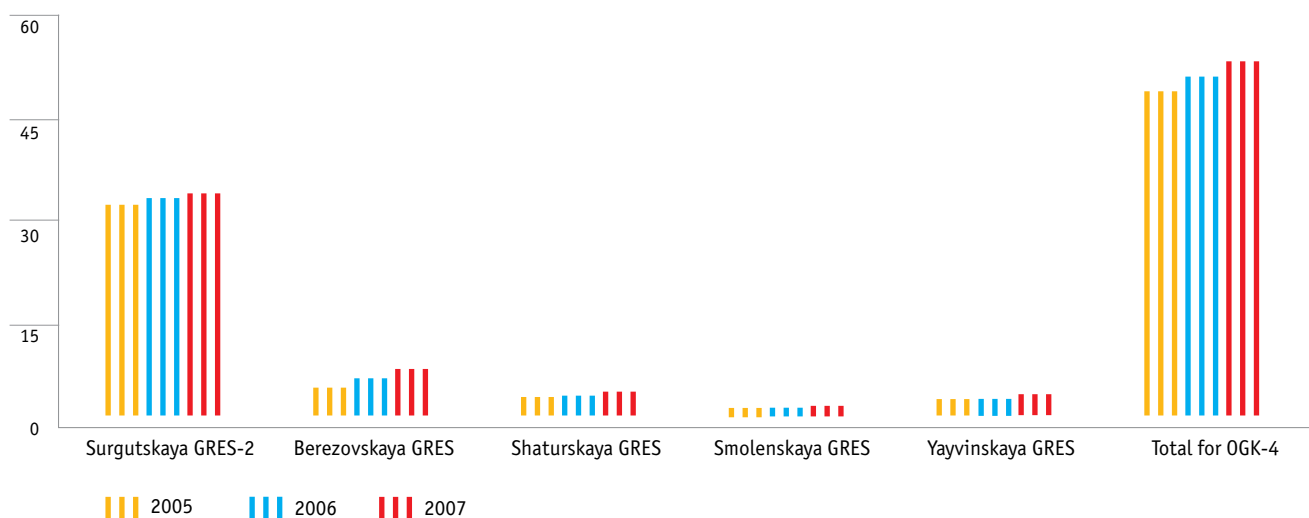
In 2007 the electricity output of OGK-4 power plants reached 52,233 million kWh, 7% above the 2006 level. Supplies under the regulated agreements accounted for 87% of total output. The rest of the electricity was supplied to competitive sectors of the market: the day-ahead spot market and the balancing market. Sales of electricity by OGK-4 power plants in 2007 rose by 12% to 57,473 million kWh.

The 7% increase in electricity output reflects an increase in total supplies of electricity to the wholesale market. The 12% increase in sales is due to the launch of

the New Wholesale Electricity Market (NOREM) in which supply obligations to supply electricity under regulated contracts are deemed always fulfilled, and if generators' own production is insufficient, they buy in electricity to meet their obligations under regulated contracts.

The highest proportion of supplies in the competitive sector of the market in 2007 was achieved by Surgutskaya GRES-2 (15%). The comparable figure for Berezovskaya and Yayvinskaya GRES amounted to 13% and 12% respectively. The shares of electricity supply in the free sector were 4% for Shaturskaya GRES and 3% for Smolenskaya GRES, due to their higher fuel costs and the prices on the free market,

**OGK-4 Electricity Sales Volume by Power Plants, mln kWh**



which are often below the level of the fuel cost for these stations.

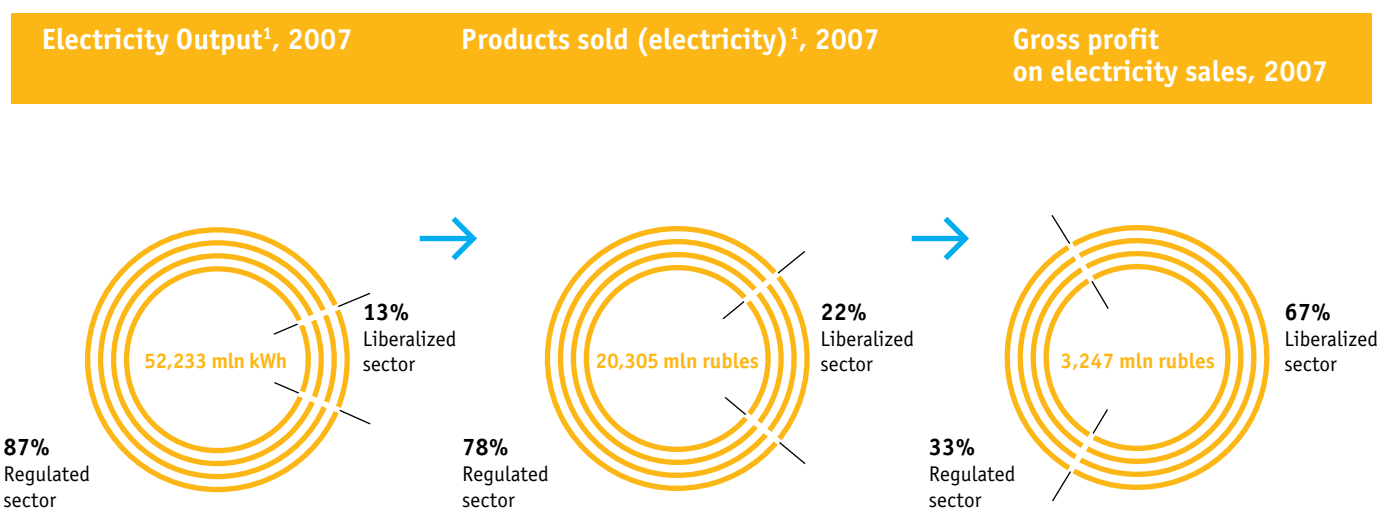
Sale prices of electricity in the wholesale market sectors and the fuel costs of the Company's power plants are summarized in the following table.

Federal Tariff Service sets up the tariffs for electricity with minimum profitability (1–3%). In 2007 the Company supplied 87% of its total useful output at regulated tariffs, while the share of the regulated sector in the Company's margin on electricity sales amounted to only 33%. Most of

the margin on sales of electricity (67%) was derived from supply to the competitive sectors of the wholesale market.

In 2008 OGK-4 plans to increase electricity sales in the competitive sector of the wholesale market in the context of further liberalization. Furthermore, the Company will be striving for further optimization of sales and purchases of electricity in all sectors of the market to increase net profits. OGK-4 also intends to exploit the possibilities of the competitive capacity market, which is expected to be launched in 2008.

Power plant	Average sale price on wholesale market, RUR/MWh	Regulated sector tariff, RUR/MWh	Sale price in the free sector, RUR/MWh	Average fuel cost, RUR/MWh
Surgutskaya GRES-2	326	284	539	282
Berezovskaya GRES	272	245	358	230
Shaturskaya GRES	774	760	829	618
Smolenskaya GRES	672	637	805	588
Yayvinskaya GRES	491	446	554	437
Total OGK-4	392	351	547	327



<sup>1</sup> including purchased electricity

## SALES OF HEAT

OGK-4 is focused on the production and sale of electricity, so the production and sale of heat is not a key area of the Company's business. In 2007 sales of heat accounted for around 2% of total revenues.

Nevertheless, OGK-4 pays great attention to the reliability and continuity of heat supplies, since these are essential to local consumers in contiguous populated areas.

The principal consumers of heat are households and social facilities in Ozerny in the Smolensk Oblast, the town of Shatura, the city of Surgut (about 30% of users), Yayva, and the town of Sharypovo (including Dubinino and Kholmogorskoe). In addition, Surgutskaya GRES-2, Yayvinskaya, and Shaturskaya GRES supply heat to industrial customers in their respective regions.

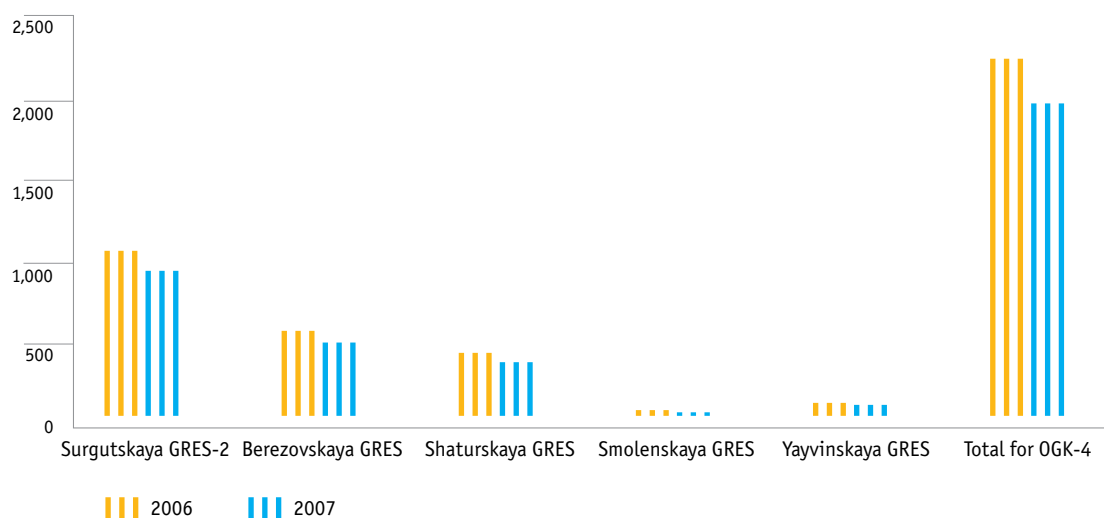
In 2007 the Company supplied 1,924 thousand Gcal of heat to consumers, 12.7% less than heat supplies in 2006. The drop in heat sales was caused by the unusually high ambient temperature in 2007 during the heating season.


In all power plants of OGK-4 (with the exception of Surgutskaya GRES-2), in 2007 heat was supplied directly to subscribers under bilateral contracts. Surgutskaya GRES-2 supplied heat to Urals Heat Supply Network Company.

In order to provide its consumers with heat of the necessary quality, the Company regularly maintains and modernizes heat supply networks. In particular, in 2007 the Company redesigned the heat networks supplying heat to Surgut and the networks of hot water supplies to Shatura town.

Heat tariffs are regulated by the State and set by Regional Energy Commissions (RECs). The cost of heat is a socially significant factor in the regions where the stations are located; therefore the affordability of this product and the ability of consumers to pay are taken into account in the regulation process. The Company concentrates its efforts on arriving at a break-even basis for sales of heat by working with the RECs in setting economically reasonable tariffs and in improving production efficiency.

### OGK-4 Heat Sales Volume by Power Plants, Gcal





# \$753

per kW

of installed capacity: the valuation of the Company for the sale of the RAO UES's stake in the Company to E.ON – a record price for generating capacity in Russia<sup>1</sup>

<sup>1</sup> as at 31.12.2007

# Financial overview

This section presents an analysis of financial results which is based on OGK-4's figures for 2007, produced in accordance with Russian accounting standards, and the aggregated 2006 results of OGK-4 and the power plant JSCs, which were stand-alone entities in the first half of that year and became subsidiaries of the Company on July 1, 2006. This approach is used solely for the sake of comparability of financial indicators and analysis of trends, as if OGK-4 had existed as a single company comprising five power plants for the full year 2006.

## GENERAL INFORMATION

OGK-4's main line of business is electricity production and wholesale. The existing rules for the wholesale market also allow generating companies to sell electricity, which they have not produced in their own facilities but purchased in the free sectors of the wholesale market. Thus the Company's revenues derive mainly from selling generated and purchased electricity in the Russian wholesale market segments.

OGK-4's revenue in 2007 was up 18% to 31,461 million rubles from 26,694 million rubles in 2006<sup>1</sup>. OGK-4's earnings before interest and taxes (EBIT) increased by 39% from 2,227 million rubles<sup>1</sup> for 2006 to 3,095 million rubles for 2007. The key factors in the growth of revenue and EBIT were increased volumes of electricity generated by

the Company and sold under regulated contracts and a substantial increase (+83%) in revenue from electricity sales in the competitive sector of the wholesale electricity market.

## RECENT DEVELOPMENTS

### The incident at Surgutskaya GRES-2

On January 4, 2008, following a partial roof collapse, the 800 MW power unit 6 at Surgutskaya GRES-2 was shut down. There was some damage to equipment, the amount of which has not been definitively quantified as of the date of approval of this annual report and is still under discussion with the Company's insurers. It is thought that the damage caused by the partial roof collapse will in fact be reimbursed in full under the terms of the insurance agreement.

OGK-4 also considers it appropriate to point out that a contract has been signed for the functions of Technical Agent for the implementation of the major investment projects in the investment program. The designated Technical Agent is EnergoFichtner company; the contract is worth 595.0 million rubles.

Full details of all events of significance for OGK-4, which take place after 31 December 2007, will be reported in the Company's annual report for 2008.

<sup>1</sup> Financial data for the year 2006 of OGK-4 and its power stations, which in the first half of the year 2006 existed as stand-alone entities and were merged on July 1, 2006 into a single legal entity, are represented in a combined (consolidated) basis, aggregated from the financial statements of OGK 4 and the corresponding "AO Stations". This approach to present combined financial data as if the company and the five power stations existed as one single legal entity since the beginning of the year 2006, had been chosen for comparability of financial data between 2006 and 2007 and the analysis of changes between the periods only. Such combined (consolidated) financial data for the year 2006 had not been audited by the auditor in the process of audit of the financial statements of OGK-4 for the years 2006 and 2007.



## CERTAIN FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS

The Company's results are subject to the influence of a number of factors, including the regulation of the Russian electricity sector, in particular, tariff regulation, prices of fuel and third-party services, macroeconomic development trends in Russia, taxation, and interested-party transactions.

## REGULATION OF THE RUSSIAN ELECTRICITY SECTOR. TARIFFS.

In accordance with RF Government Resolution No. 205 of April 7, 2007, since January 1, 2007 the Company, as a producer of electricity and participant of the wholesale market, in the first half of 2007 has been obliged to sell not less than 95% of its electricity production, defined for the producer in the approved forecast balance for 2007, at regulated prices (tariffs); from July 1, 2007 the minimum is 90%.

The regulated tariffs set for the Company's power plants vary considerably for a number of reasons including the plants' efficiency, location, fuel type, and investment plans. Historically, regulated tariffs were higher for Smolenskaya GRES and Shaturskaya GRES than the Company's power plants located in the Urals, Volga, and Siberian Federal Districts close to regions with relatively low gas and coal prices. The following table gives further details of the trends in the tariffs for electricity from the Company's power plants

*Electricity tariffs, rubles/MWh*

	2005	2006	2007	2008
Surgutskaya GRES-2	335.70*	265.22	284.20	361.22
Berezhovskaya GRES	206.64	224.37	245.04	249.06
Shaturskaya GRES	710.50	775.13	760.20	841.60
Smolenskaya GRES	574.00*	519.30	636.77	769.45
Yayvinskaya GRES	609.64*	451.23	445.81	552.54

\* Electricity delivered at single electricity and capacity tariffs

In all, in 2007 the Company had electricity sales at regulated prices amounting to 45,456 million kWh. Revenues from sales in the regulated segment of the market totaled 24,077 million rubles. Note that the amount of these revenues also includes payment for capacity, which in fact in 2007 amounted to 8,140 million rubles.

The capacity tariffs set by the Federal Tariff Service (FTS) for OGK-4 power plants in the period 2005-2008 are indicated in the following table.

*Capacity tariffs, rubles/MW*

	2005	2006	2007	2008
Surgutskaya GRES-2	—	62,402.40	67,154.39	72,944.94
Berezhovskaya GRES	93,916.79	100,564.00	97,787.40	105,837.30
Shaturskaya GRES	88,739.10	89,316.40	100,952.17	108,814.20
Smolenskaya GRES	—	80,687.90	73,152.44	79,579.37
Yayvinskaya GRES	—	105,265.30	108,632.62	117,463.51

Given that in 2007 the Company was obliged to sell 90–95% of all the electricity it produced at prices set by the FTS, tariff regulation exerted a significant effect on OGK-4's 2007 results.

## FUEL COSTS

The Company requires large quantities of various types of fuel, which it uses as raw material for the production of electricity and heat. OGK-4 purchases substantial volumes of gas and coal and smaller amounts of peat and fuel oil. See the section Fuel supply. For 2007 the expenditure on fuel increased by 1.2%<sup>1</sup> by comparison with 2006, and amounted to 61.4% of the Company's overall operating expenses. Total fuel costs in 2007 increased by 2,691 million rubles6 (+18%) by comparison with 2006, and amounted to 17,420 million rubles. The increase of fuel costs and the share of these costs in the Company's overall expenses structure is due to the general growth in commodity prices in Russia in

<sup>1</sup> Financial data for the year 2006 of OGK-4 and its power stations, which in the first half of the year 2006 existed as stand-alone entities and were merged on July 1, 2006 into a single legal entity, are represented in a combined (consolidated) basis, aggregated from the financial statements of OGK 4 and the corresponding "AO Stations". This approach to present combined financial data as if the company and the five power stations existed as one single legal entity since the beginning of the year 2006, had been chosen for comparability of financial data between 2006 and 2007 and the analysis of changes between the periods only. Such combined (consolidated) financial data for the year 2006 had not been audited by the auditor in the process of audit of the financial statements of OGK-4 for the years 2006 and 2007.

2007. In particular, the weighted average price of gas for OGK-4 power plants rose in 2007 by 15.3% by comparison with 2006; the weighted average price of coal supplied to Berezovskaya GRES rose 15.9% by comparison with 2006.

The main component of OGK-4's fuel portfolio is gas, which makes up 82.5% of all the fuel used by the Company and 86.3% of the Company's expenditure on fuel in 2007. Associated gas or natural gas is the main type of fuel at Surgutskaya GRES-2, Yayvinskaya GRES, Smolenskaya GRES, and Shaturskaya GRES. In 2007 the Company purchased around 56.4% of its gas (46.6% of all fuel) from Surgutneftegaz, a major independent oil and gas producer. In late 2007 OGK-4 signed a three-year contract which runs until 2011 with Surgutneftegaz. Its gas deliveries do not pass through the gas transport system controlled by Gazprom and so are not subject to Gazprom's gas transmission limits. However, the volume of gas supplied by Surgutneftegaz is limited by oil production volumes. OGK-4 also purchased around 25% of its gas (21% of all fuel) in 2007 from other independent suppliers, chiefly Novatek, and on the Interregional Gas Exchange.

Gazprom supplies the Company with gas up to limits in advance for OGK-4's power plants at regulated prices (tariffs) set by the FTS. Note that, although electricity production, hence gas consumption, have risen over the past four years, the volume of limit gas supplied has remained almost unchanged. In 2007 around 17.8% of all the Company's gas (under 15% of all energy) was obtained from Gazprom. Even so, Gazprom subsidiaries remain key suppliers of natural gas to OGK-4 at Shaturskaya GRES, Smolenskaya GRES, and Yayvinskaya GRES.

Coal is also a significant component of the Company's fuel mix. In 2007 it made up 16.7% of the fuel used by the Company and 11.5% of its total fuel expenses in 2007. Coal is used primarily at Berezovskaya GRES, the Company's second-largest power plant in terms of installed capacity. OGK-4's main supplier of coal (chiefly to Berezovskaya GRES) is the largest Russian producer of coal, OJSC SUEK, which owns the Berezovsky-1 open coal pit. Berezovskaya GRES was designed to use only one type of fuel, brown coal mined at Berezovsky-1. Early in 2008 the Company signed a three-year contract with SUEK for fixed volumes of coal at fixed prices for Berezovskaya GRES.

## EXPENDITURE ON THIRD-PARTY SERVICES

The company incurs costs arising from services provided by third parties in the wholesale electricity market. For instance, the System Operator provides centralized control of the overall energy system, the Trading System Administrator manages the wholesale trading system and the Financial Settlement Center calculates the claims and obligations of participants in the wholesale electricity and capacity market and arranges financial settlements between them. The Company makes standard contracts for the services of all of the above with standard terms and conditions, which are not open to discussion. In addition, certain services provided by third parties are paid for by the Company at regulated prices (tariffs) set by the FTS.

The Company's spending on third-party services amounted to 472 million rubles (1.7%) of all its operating expenses in 2007.

## SEASONALITY

Seasonality significantly affects the result of the Company's operations. Electricity production by the Company's power plants depends on the demand for electricity overall and from individual plants.

The overall demand for electricity and heat varies according to the time of year, the time of day, the weather and the outside air temperature, length of day, light levels, whether it is a working day, the weekend, a holiday, or the day between a working day and a weekend or holiday.

The demand for the electricity from a given plant depends on overall demand, but also on the factors which determine the mode of operation of the energy zone in which the plant is located — the pattern of generation by type of power plant (thermal, cogeneration, nuclear, hydro) and the reliability of the energy system (grid and system limitations). Such factors are also seasonal — for example, high water (leading to increased production from hydroelectric power plants), or repair/maintenance periods, which are carried out extensively between autumn-winter periods.

Output from hydroelectric plants is especially relevant to Berezovskaya GRES. The factor of repair/maintenance of grids and trunks equipment affects the take-up of Shaturskaya GRES and Smolenskaya GRES.



## MACROECONOMIC DEVELOPMENT TRENDS IN RUSSIA

The venue of all the Company's operations is Russia. Therefore trends in the macroeconomic development of the country, including the growth of the economy overall and of the markets in which the Company operates, have a significant effect on the Company's results. The table below gives some key macroeconomic indicators of the state of the Russian economy in the period of 2004–2007.

	2004	2005	2006	2007
GDP growth	7.2	6.4	6.7	8.1
Consumer prices index	11.7	10.9	9.0	11.9
Unemployment rate	8.2	7.2	6.9	6.1

Source: Rosstat

In recent years Russia has successfully overcome the consequences of 1998 financial crisis. From 2002 onwards, GDP grew at a relatively high rate by comparison with countries in North America or Europe. The growth of the Russian economy since 2002 is down to exports of oil and oil derivatives, natural gas, other natural resources and goods, and the high price of oil, gas and goods on international markets. Domestic growth also prompted a federal budget surplus, which was an important factor that facilitated state spending and growing state support for infrastructure development. All these factors were reflected in a 1.9% rise in domestic energy consumption between 2006 and 2007 and also in increased expenditure on fuel and wages. According to Rosstat, Russia has experienced sustained growth in energy consumption at an average rate of 2% per year since 1998. The Company expects energy consumption to continue to rise at similar rates with increasing demand for electricity from industry and the construction sector, and also from the public as the general standard of living improves.

## TAXATION

The Company is liable for a number of taxes, which have a significant effect on its results. The table below gives information about the type and amount of taxes imposed in 2007.

Taxes due to the federal budget	Total tax for 2007, thousands rubles
VAT	1,248,574
Income tax	270,086
Mining tax	336
Water tax	169,236
Payroll tax	314,501
Social Tax (ESN)	158,890
Total	2,161,623

Taxes due to the regional budget	Total tax for 2007, thousands rubles
Income tax	715,438
Property tax	346,594
Transport tax	1,538
Total	1,063,570

The Company is classified as a "major taxpayer" in the Russian Federation. Its compliance with tax law is monitored by the Interregional Inspectorate of the Federal Tax Service for major taxpayers no 4.

## RESULTS

The table gives the Company's operating results for 2007.

million rubles	2006	2007
Revenues	26,694 <sup>1</sup>	31,461
Expenses	24,467 <sup>1</sup>	28,366
EBITDA	3,138 <sup>1</sup>	4,158
EBIT	2,227 <sup>1</sup>	3,095
Net income	2 <sup>1</sup>	1,489

## REVENUES

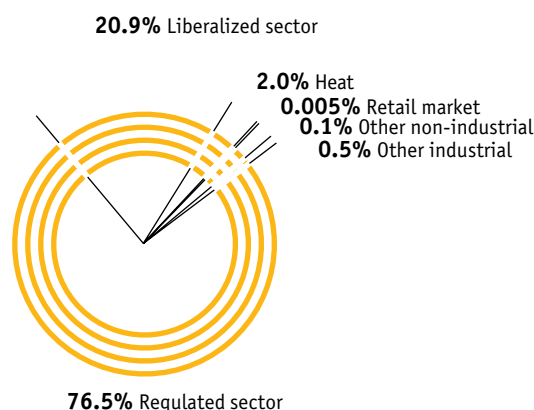
The Company's revenues for 2007 were derived from sales of electricity, heat and other products and services of an industrial and non-industrial nature. Revenues for 2007 were up 18%<sup>1</sup> from 2006 at 31,461 million rubles. The key factors in the increased revenues were increased electricity sales under regulated contracts and a substantial (+83%) increase in revenues from electricity sales in the competitive sector of the wholesale electricity market.

million rubles	2006	2007	+/-, %
Regulated sector	21,652.4 <sup>1</sup>	24,076.8	+11.2
Competitive sector	3,595.7 <sup>1</sup>	6,578.9	+83.0
Retail market	1.1 <sup>1</sup>	1.7	+54.5
Heat	569.7 <sup>1</sup>	635.7	+11.6
Other industrial	844.0 <sup>1</sup>	145.0	-82.8
Other non-industrial	31.1 <sup>1</sup>	22.6	-27.2
Total	26,694.0 <sup>1</sup>	31,460.8	+17.9

## ELECTRICITY

Revenues from electricity sales were up 21.4% from 25,249.20 million rubles<sup>1</sup> in 2006 to 30,657.4 million rubles in 2007. Share of revenue from electricity sold in the regulated market fell by 4.6% to 76.5% of OGK-4's total revenue, or 24,077 million rubles, in 2007. Revenue from sales in the competitive market increased by 7.4% to 20.9% or 6,579 million rubles. The increased revenue from electricity sales is primarily due to a general growth in weighted average prices for the electricity sold by the Company's power plants in 2007. Revenue from retail sales made up a tiny proportion — around 0.005% — of the Company's total revenues in 2007.

### Revenues Structure



<sup>1</sup> Financial data for the year 2006 of OGK-4 and its power stations, which in the first half of the year 2006 existed as stand-alone entities and were merged on July 1, 2006 into a single legal entity, are represented in a combined (consolidated) basis, aggregated from the financial statements of OGK 4 and the corresponding "AO Stations". This approach to present combined financial data as if the company and the five power stations existed as one single legal entity since the beginning of the year 2006, had been chosen for comparability of financial data between 2006 and 2007 and the analysis of changes between the periods only. Such combined (consolidated) financial data for the year 2006 had not been audited by the auditor in the process of audit of the financial statements of OGK-4 for the years 2006 and 2007.

## HEAT

Revenues from heat sales increased by 11.6% from 569.7 million rubles in 2006<sup>1</sup> to 635.7 million rubles in 2007. The increase is primarily due to a 9.2% increase in average heat tariffs. Overall in 2007 revenue from heat fell to 2% (from 3% in 2006<sup>1</sup>) of the Company's total revenues.

## OTHER REVENUES

The Company's other revenues (revenue from industrial and non-industrial sales) fell by 80.8% from 875.1 million rubles<sup>1</sup> in 2006 to 167.6 million rubles in 2007. The reason for the fall was that in 2006 759 million rubles of electricity sales under bilateral contract was recognized as "other sale of an industrial nature". Other revenues made up around 0.5% of OGK-4's total revenues in 2007.

## EXPENSES

The table gives the Company's expenses in 2007.

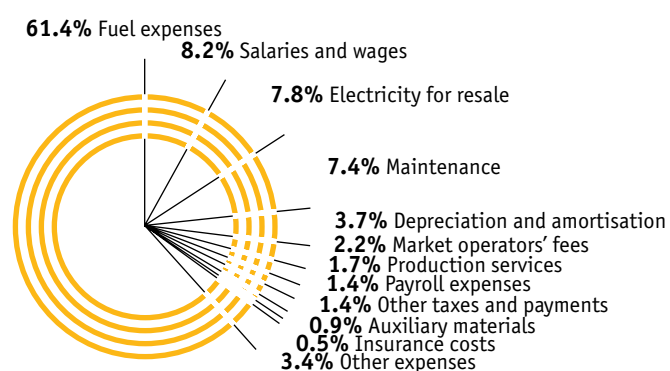
million rubles	2006	2007	+/-, %
Fuel expenses	14,729.0 <sup>1</sup>	17,420.0	18.3%
Salaries and wages	1,945.0 <sup>1</sup>	2,319.4	19.2%
Electricity for resale	1,544.0 <sup>1</sup>	2,222.6	43.9%
Maintenance (excluding payroll, social tax, etc.)	2,391.0 <sup>1</sup>	2,094.0	-12.4%
Depreciation and amortization	910.0 <sup>1</sup>	1,062.5	16.8%
Market operators' fees	449.0 <sup>1</sup>	472.0	5.1%
Production services	249.0 <sup>1</sup>	400.0	60.6%
Payroll expenses	417.0 <sup>1</sup>	395.7	-5.1%
Other taxes and payments	652.0 <sup>1</sup>	612.1	-6.1%
Auxiliary materials	217.0 <sup>1</sup>	263.7	21.5%
Insurance costs	97.0 <sup>1</sup>	147.2	51.8%
Other expenses	867.0 <sup>1</sup>	956.8	10.4%
Total expenses	24,467.0 <sup>1</sup>	28,366.0	15.9%

OGK-4's operating expenses grew more slowly than its revenues in 2007. Expenses rose 16% during the accounting period to 28,366 million rubles. The overall rise in operating expenses is primarily due to increased fuel costs, the cost of purchasing electricity in the wholesale market for resale, the expenses related to wages and salaries and the corresponding taxes and payments from the Company's payroll.

## FUEL COSTS

Fuel costs as a proportion of the Company's overall operating expenses rose 1.2% to 61.4%. In absolute terms, expenditure on fuel amounted to 17,420 million rubles in 2007. That increase is due to the general rise in prices for key fuels in Russia during 2007. In particular the weighted average gas price for OGK-4 power plants increased 15.3% and the weighted average price of the coal supplied to Berezovskaya GRES increased 15.9% between 2006 and 2007.

### Expenses Structure



<sup>1</sup> Financial data for the year 2006 of OGK-4 and its power stations, which in the first half of the year 2006 existed as stand-alone entities and were merged on July 1, 2006 into a single legal entity, are represented in a combined (consolidated) basis, aggregated from the financial statements of OGK 4 and the corresponding "AO Stations". This approach to present combined financial data as if the company and the five power stations existed as one single legal entity since the beginning of the year 2006, had been chosen for comparability of financial data between 2006 and 2007 and the analysis of changes between the periods only. Such combined (consolidated) financial data for the year 2006 had not been audited by the auditor in the process of audit of the financial statements of OGK-4 for the years 2006 and 2007.

## SALARIES AND WAGES, PAYROLL TAXES

Salaries and wages and payroll taxes expenses includes wages and salaries and other payments to the Company's employees. The Company's expenditure on wages, salaries, and other payments to employees increased by 19.2% from 1,945.0 million rubles in 2006<sup>1</sup> to 2,319.4 million rubles in 2007. The increase was mainly due to fulfillment of the social guarantees provided for in the "Tariff agreement for electricity industry in the Russian Federation in 2007–2008". The Company's expenses related to salaries and benefits to the employees represented 8.2% of the total expenses of the Company in 2007.

## ELECTRICITY PURCHASES

As a participant in the wholesale market, the Company purchases electricity in the Day-Ahead market to meet its regulated contracts and in the Balancing market to meet its obligations in respect of planned hourly volumes in the Day-Ahead market.

The purchase of electricity in the wholesale market is a result of the Company's trading strategy. Additionally, the Company has to purchase electricity on the wholesale market in case volumes under the regulated agreements exceed the volumes of available capacity in repair/maintenance periods or in periods of particular capacities being in cold reserve at the command of the System Operator.

The Company's expenditures on electricity purchases increased by 43.9% from 1,544.0 million rubles in 2006<sup>1</sup> to 2,222.6 million rubles in 2007. The increase is primarily due to the launch of New Market Rules on September 1, 2006 — in that arbitration between market sectors was possible for only four months of 2006, but all 12 months of 2007 — the market position of some of the Company's plants and increasing opportunities to make additional profits from reselling electricity at regulated tariffs. Overall, electricity purchases made up 7.8% of the Company's total expenses in 2007.

## REPAIRS AND MAINTENANCE

The Company undertakes repairs and scheduled maintenance of its existing facilities. As a rule, spending on maintenance and repair increases during the period between April and September due to repair campaigns.

In 2007 OGK-4 reduced maintenance costs by 12.4%<sup>1</sup> to 2,094 million rubles. Maintenance as a proportion of total expenses fell to 7.4%. That reduction was possible thanks to increased efficiency in procedures for the procurement of maintenance works and materials, and by more rational planning of maintenance and reduction of repair times.

## DEPRECIATION AND AMORTIZATION

Depreciation of property, plant, and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use.

OGK-4 increased its allowance for depreciation and impairment of property, plant, and equipment by 16.8% from 910.0 million rubles in 2006<sup>1</sup> to 1,062.5 million rubles in 2007. Depreciation and impairment of property, plant and equipment as a proportion of total expenses remained at the 2006 level (3.7%)<sup>1</sup>. The reason for the increase is that because the Company was formed as the result of a reorganization, no depreciation and impairment of property, plant, and equipment was calculated for the first month. So depreciation and impairment of property, plant, and equipment was calculated for only 11 months of 2006, but for the entire financial year 2007.

## MARKET OPERATORS' FEES

Market operators' fees include the Company's payments under contracts with the System Operator, Trading System Administrator, and Financial Settlement Centre. OGK-4's payments to market operators rose 5.1% from 449.1 million rubles<sup>1</sup> in 2006 amounting to 472.0 million rubles in 2007. Payments to market operators as a proportion of the Company's total operating expenses accounted for 1.7% in 2007.

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## PRODUCTION SERVICES

Production expenses include transport services, the services for testing and verification of instruments, and others. The Company's expenditure on production services rose by 60.6% from 249 million rubles<sup>1</sup> in 2006 to 400.0 million rubles in 2007. Production services made up 1.4% of the Company's total operating expenses in 2007.

## PAYROLL TAXES AND PAYMENTS

Payroll taxes expenses include payments of unified social tax and social and pension contributions to the Russian governmental funds attributable to salaries and wages. The Company makes these contributions at the statutory unified social tax rates in force, which ranged from 2% to 26% in 2007, applied on a regressive basis.

Total expenses on payroll taxes and payments amounted to 395.7 million rubles in 2007, 5.1%<sup>1</sup> less than in 2006.

## OTHER TAXES AND PAYMENTS

Other taxes include: water tax, property tax, transport tax, and ecology payments. The cost to the Company was 652.0 million rubles<sup>1</sup> in 2006 and 612.1 million rubles in 2007, a 6.1% reduction. Other taxes and payments amounted to 2.2% of the Company's total expenses in 2007.

## AUXILIARY MATERIALS (EXCLUDING WATER TAX)

The Company's expenditure on auxiliary materials increased 21.5% from 217.0 million rubles<sup>1</sup> in 2006 to 263.7 million rubles in 2007. Auxiliary materials made up 0.9% of total operating expenses in 2007.

## INSURANCE

OGK-4's program of property insurance covers a variety of risks, primarily loss or damage of the Company's property. It includes insuring all the generators and turbines at the Company's power plants against fire, lightning, explosion, natural disasters, terrorism, short circuits, defective equipment, and losses due to interruptions of production. In addition, OGK-4 has a third-party liability insurance as an operator of hazardous machinery, and accident and voluntary medical insurance for its employees.

The Company's expenditure on insurance rose 51.8% from 97 million rubles<sup>1</sup> in 2006 to 147.2 million rubles in 2007. Insurance costs made up 0.5% of the Company's total operating expenses in 2007.

## EBITDA

OGK-4's profits before interest, taxes, depreciation, and amortization amounted to 4,158 million rubles in 2007, a 33% increase over 2006 (3,138 million rubles<sup>1</sup>). That significant increase in EBITDA is chiefly due to increased volume (in value terms) of sales of electricity from the Company's plants under regulated contracts, as well as by a substantial increase (+83%) in revenues from electricity sales in the competitive wholesale electricity market.

EBITDA margin in 2007 amounted to 13.2% (11.8% in 2006<sup>1</sup>).

## EBIT

OGK-4's profits before interest and taxes were up 39% from 2,227 million rubles<sup>1</sup> in 2006 to 3,095 million rubles in 2007, increasing at more than double the rate of increase of the Company's operating expenses in the same period. A key factor in the growth of EBIT in 2007 is analogous to the key growth factor for EBITDA.

EBIT margin amounted to 9.8% in 2007 (8.3% in 2006<sup>1</sup>).

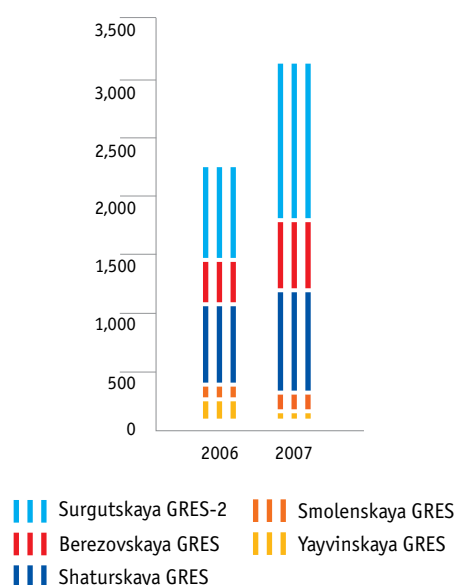
<sup>1</sup> Financial data for the year 2006 of OGK-4 and its power stations, which in the first half of the year 2006 existed as stand-alone entities and were merged on July 1, 2006 into a single legal entity, are represented in a combined (consolidated) basis, aggregated from the financial statements of OGK 4 and the corresponding "AO Stations". This approach to present combined financial data as if the company and the five power stations existed as one single legal entity since the beginning of the year 2006, had been chosen for comparability of financial data between 2006 and 2007 and the analysis of changes between the periods only. Such combined (consolidated) financial data for the year 2006 had not been audited by the auditor in the process of audit of the financial statements of OGK-4 for the years 2006 and 2007.

## NET INCOME

The Company's net income for 2007 amounted to 1,489 million rubles. In 2006 the figure was 2 million rubles<sup>1</sup>. The large growth in net income in this period is due to increased revenues from electricity sales in all wholesale sectors, and the profit arising from free financial funds placed on deposit.

Net income margin of OGK-4 amounted to 4.7% in 2007.

### EBIT by Branches, mln rubles



## ASSETS. SIGNIFICANT CHANGES IN ASSET STRUCTURE

In 2007 OGK-4 increased its assets by 209.02% to 69,513.6 million rubles. So large an increase is the result of raising over 46.5 billion rubles from the additional share issue in October 2007.

The Company's non-current assets have undergone no great change: they had increased by 3.6% from 17,784 million rubles as of January 1, 2007 to 18,257 million rubles at the end of 2007. The change in the line "Construction in progress" (up 53.9% from 1,127 million rubles to 1,734 million rubles) was essentially the result of the start of work on the major investment projects at Shaturskaya GRES and Surgutskaya GRES-2.

In OGK-4's current asset structure, the greatest change in 2007 was to accounts receivable, which showed a large increase from 8.7 million rubles as at the end of 2006 to 7,763.7 million rubles as of December 31, 2007. The large increase arises because the Company had transferred advances under the contracts for the construction of new units at Shaturskaya GRES and Surgutskaya GRES-2.

The accounts receivable related to the Company's customers fell in 2007 by 6.29% to 452.8 million rubles.

## LIABILITIES. IMPORTANT CHANGES IN LIABILITIES STRUCTURE

The most important change in the structure of the Company's liabilities is an increase in additional capital from 531.5 million rubles as of December 31, 2006 to 41,471.7 million rubles at the end of 2007. That very large increase resulted from the placement of 13,886,489,865 ordinary shares of the additional share issue, which took place in October 2007 in the course of increase of the Company's charter capital.

The Company's accounts payable fell from 1,662 million rubles to 1,527.3 million rubles in 2007.

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## LIQUIDITY AND OWN CAPITAL

The Company's prime source of liquidity in 2007 was financial funds from the continued operations and, to a lesser extent, debt financing. The Company believes that capital expenditures will constitute the largest use of financial resources over the next several years. Such spending will relate mainly to production of electricity and heat, as well as modernization of existing generating assets and construction of new capacity within the framework of the investment program. The Company plans to meet a large part of its financial requirement using proceeds raised from the additional share issue of October 2007. In addition, OGK-4 plans to make active use of its own financial resources and debt instruments.

## OTHER IMPORTANT FINANCIAL EVENTS FOR OGK-4 IN 2007

OGK-4 issued standby letters of credit in fulfillment of its own payment obligations under the contracts for CCGT-400 capacity at Shaturskaya GRES and CCGT-800 (2xCCGT-400) capacity at Surgutskaya GRES-2.

Citibank International plc, London, ABN Amro, and Amsterdam Trade Bank N.V. are the issuing banks. The beneficiaries are the parties to the contracts, General Electric International Inc and GAMA. These transactions were among the largest in Russia in 2007.



# Investment activities

Throughout 2007 the attention of management and of the Board of Directors was focused on OGK-4's investment activities. This area of the Company's business was given priority because of the increasing capacity shortfall in the regions where OGK-4 is present and also a gradual increase of the competitive sector of the wholesale electricity market, which in 2011 is expected to become completely free. The need to maintain a high level of reliability in the power supply to consumers is still a vital factor in OGK-4's investment activities.

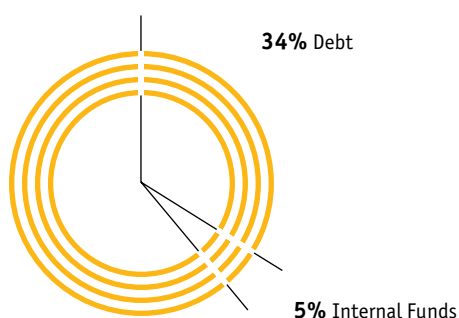
## INVESTMENT PROGRAM

In 2007 the Company took a number of definite steps to implement plans for the creation of new generating capacity. In June the Board of Directors approved OGK-4's investment program, which envisages the implementation

of four major investment projects by 2011. The result of implementing the program will be the commissioning of 2,400 MW of advanced highly-efficient generating capacity.

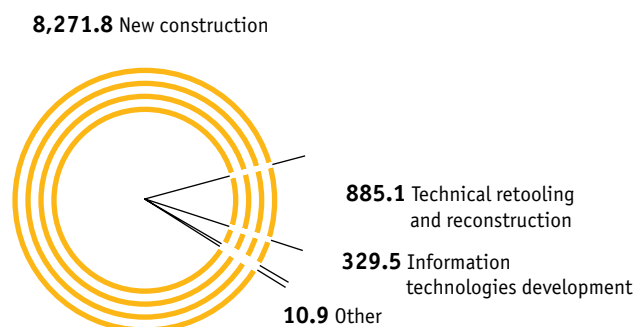
CCGT technology will be used for most of the investment program. At Shaturskaya, Surgutskaya, and Yayvinskaya power stations it is proposed to install single-shaft condensing power units based on CCGT. The expected efficiency of the new units is around 57%, and the heat rate amounts to about 219 g/kWh, which is much better than the efficiency figures for the existing steam-turbine equipment. CCGT technology will allow the stations to use gas with maximum efficiency, which is becoming urgent against the background of Russian government plans to raise domestic prices for gas to export price level. In this context the current power units could be switched to burning other types of fuel. An additional advantage of installing CCGT units will be an improvement in the ecological indicators for

### Investment Program Financing Sources



61% Proceeds from the placement of additional shares

### Investment Program 2007, mln rubles



the power plants due to a reduction in harmful emissions into the atmosphere.

*Table. Subjects of the Investment Program*

Shaturskaya GRES	Construction of CCGT-400	2009
Surgutskaya GRES -2	Construction of 2xCCGT-400	2010
Berezovskaya GRES	Completion of construction of 800 MW coal-fired power unit 3	2010
Yayvinskaya GRES	Construction of CCGT-400	2011

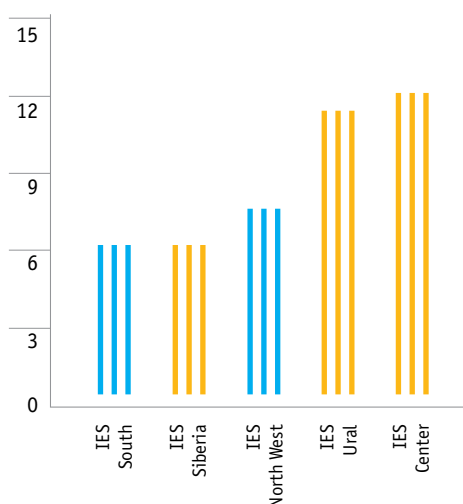
The operation of 400 MW single-shaft CCGT units at Surgutskaya GRES -2, Shaturskaya GRES, and Yayvinskaya GRES will reduce the construction capital costs and subsequent operating expenses. The single-shaft version of power units will reduce the terms of construction, while their more compact size compared with the two-shaft layout

will make it possible to implement projects on the sites of existing stations.

In 2007 the Company held open tenders for the selection of a general contractor for project implementation at Shaturskaya GRES and Surgutskaya GRES-2. The consortium of General Electric International Inc. (USA) and Gama Power A.S. (Turkey) was successful in both tenders. These companies not only offered the best technical and economic conditions for project implementation, but also have significant experience of building the “turnkey” CCGT-400 power units. Based on the tenders, contracts were concluded with the consortium for a total amount over 31 billion rubles<sup>1</sup>. The ceremony of laying the first stone for the construction of the CCGT unit at Shaturskaya GRES took place on July 31, 2007.

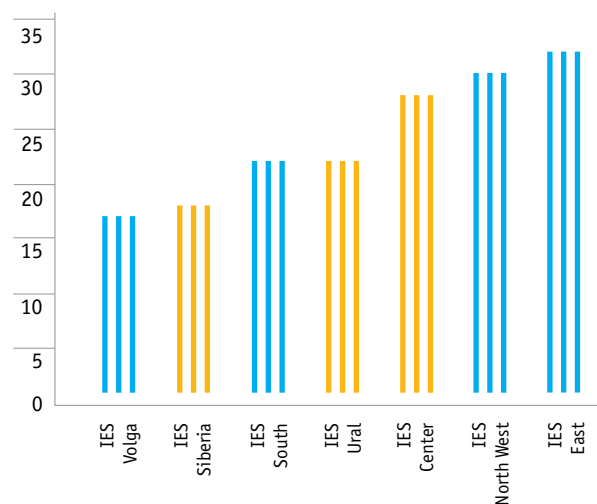
E.ON's extensive experience in the construction and operation of CCGT-based units worldwide will contribute to the success of the investment projects. Furthermore, to ensure maximum efficiency in project management, OGK-4 is intending to use Primavera software, which allows centralized real-time status monitoring of all works.

#### Expected Capacity Shortage by 2011, GW



Source: RAO UES of Russia

#### Expected Electricity Consumption Growth, 2006-2010



Source: RAO UES of Russia

<sup>1</sup> Excluding VAT and customs duties

## FINANCING THE INVESTMENT PROGRAM

In June 2007 the Board of Directors of OGK-4 approved the key parameters for the implementation of the investment projects to introduce new generating capacity, which will bring the total amount of the investment program to 76 billion rubles. However, in late 2007, due to significant price rises for main plant, auxiliary materials, construction and design works, and in the light of substantial expenses for grid connections, not previously provided for in the implementation of major investment projects, the Company decided to review the financing of the investment program.

The Company plans to finance the program partially by proceeds from the sale of additional shares as well as by own funds and by debt resources. In 2007 the financing of major investment program projects amounted to 8.27 billion rubles.

## CAPITAL INVESTMENTS

OGK-4 power plants operate relatively “young” generating equipment. The average age of the Company’s assets is 31 years, which is substantially lower than the comparable figures for other OGKs.

OGK-4 carries out annual retooling and reconstruction programs. These include extending the life of equipment, improving its technical and economic parameters, the replacement and reconstruction of obsolescent facilities, reduction of the ecological impact on the environment, and ensuring industrial safety.

During 2007 the total capital expenditure by OGK-4 amounted to 1.53 billion rubles. Capital investments were financed mainly from moneys raised by issuing additional shares, and also from the Company’s own resources.

By paying considerable attention to keeping the generating capacity in working order, the Company is mainly endeavoring to improve generating equipment reliability. OGK-4 does not intend to decommission existing facilities in the midterm prospective.

# 146 billion rubles

to be invested in the electricity industry as  
a result of the sale of the RAO UES's stake in  
OGK-4 and the additional issue of shares —  
an all-time record for non-state investment  
in the energy sector in Russia



# Equity capital

2007 was marked by substantial changes in OGK-4's equity capital, which will have a significant effect on the future development of the Company, and have already set precedents for the entire Russian electricity sector.

## E.ON

In September 2007 RAO UES of Russia announced the results of the open auction for the sale of a 60.8% stake<sup>1</sup> in OGK-4 charter capital. Several leading world energy companies showed interest in the stake. However, the best price — 3.3503 rubles per share — was offered by E.ON. The Company was valued at \$753 per kilowatt of installed capacity, which set a new record in the valuation of Russian generating companies. As a result of the deal the Russian electricity sector has attracted about 100 billion rubles, which will be allocated for financing the investment programs of the Federal Grid Company and Hydro-OGK.

Then, in October 2007, E.ON acquired about 22%<sup>2</sup> stake in OGK-4 in the course of the Company's capital increase and offering of additional shares. Through the placement of additional shares the Company raised about 46.5 billion rubles, which will be allocated to financing its investment program.

RAO UES of Russia and E.ON signed a Memorandum of Understanding and a Shareholder Agreement, which guarantees the targeted and appropriate use of funds from the placement of the additional shares. The Shareholder Agreement confirms the intention of E.ON and RAO UES of Russia to take all legal and practical steps to implement OGK-4's investment program. Dr. Wulf Bernotat, the Chairman of E.ON's Board of Management, expressed readiness to support the Company's management in implementing the plans for new-build projects.

E.ON regards Russia as one of the most attractive energy markets in the world, and OGK-4 as the best portfolio of generating assets in terms of competitive positioning in the sector and the prospects for further growth. E.ON supports the plan for electricity market liberalization and is ready to co-operate constructively with all its participants. At a meeting with employees of OGK-4 attended by representatives from all the power plants in the Company, which took place at the end of October, E.ON management stated that the primary task for both parties is to ensure painless integration of OGK-4 into E.ON Group. A process integration team has been created for this purpose, including representatives of the E.ON Corporate Centre, E.ON Russia Power, and also OGK-4 staff.

## EQUITY CAPITAL STRUCTURE

Until July 1, 2006 the capital of OGK-4 amounted to 8,210,830,760 rubles divided into the corresponding number of ordinary shares with a nominal value of 1 ruble. The sole shareholder of the Company in that period was RAO UES of Russia. In the course of merging the five power plants with and into OGK-4, shares of these five power plants were exchanged into additional shares of OGK-4. All minority shareholders of the power plants, with the exception of those who offered their shares for buy-out, became shareholders of OGK-4.

In April 2007 in accordance with the Law "On joint-stock companies", OGK-4 carried out a capital reduction to bring it into line with the net asset value. The capital reduction was carried out by reducing the nominal value of each share from RUR 1 to RUR 0.40. As a result, the charter capital of OGK-4 was reduced from 49.130 to 19.652 billion rubles.

On April 23, 2007 an extraordinary general meeting of OGK-4 shareholders approved the capital increase through

<sup>1</sup> Prior to the capital increase in October 2007

<sup>2</sup> After charter capital increase

the issue and placement of additional shares. After the completion of all procedures in the stages of additional share issue and exercise by shareholders of their pre-emptive right, the Company placed 13,849,544,048 shares to E.ON. As a result of the placement, the charter capital of the Company increased to 25,206,846,335.97 rubles. E.ON's stake in OGK-4 grew to 69.34%.

On November 15, 2007 E.ON announced a public offer to the minority shareholders for the acquisition of the Company's shares at a price of 3.3503 rubles per share. The offer was valid for 80 days. As a result of the offer E.ON AG increased its stake in the Company to 76.09%.

By the end of 2007, RAO UES of Russia's stake in OGK-4 amounted to 22.49%. After the reorganization of RAO UES of Russia in the summer 2008 the shares representing its stake in the Company will be proportionally distributed among the shareholders of RAO UES of Russia in accordance with the approved conversion coefficients and taking into account shareholder voting at the extraordinary general meeting of RAO UES on October 26, 2007.

## SHARE PERFORMANCE

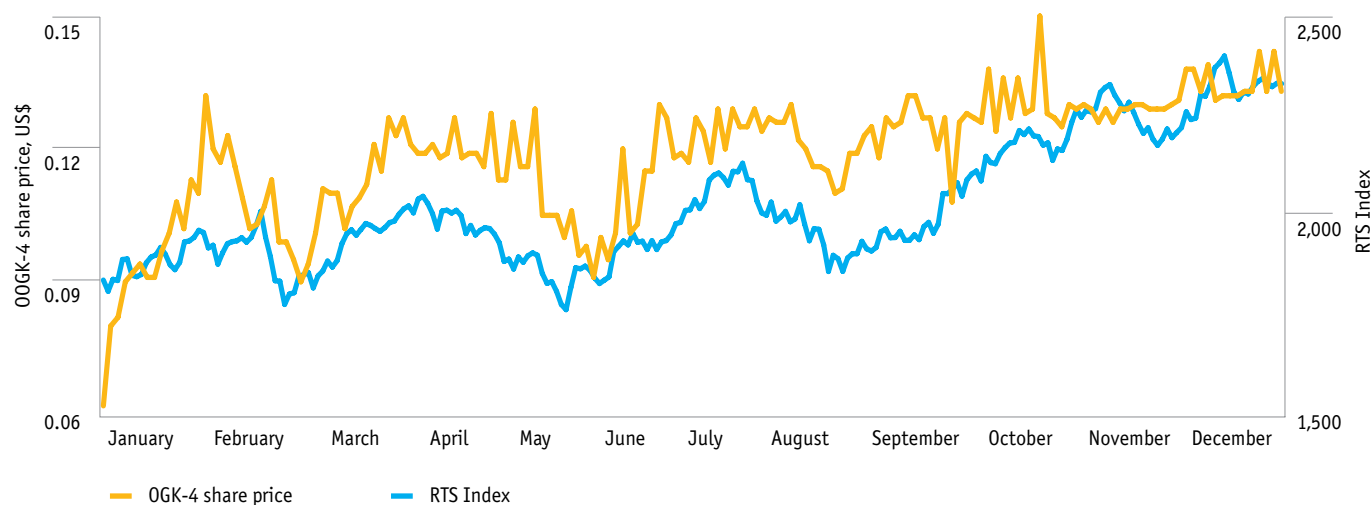
The shares of OGK-4 were admitted to trading on Russian stock markets in July 2006 as unlisted securities. Since the end of 2006, OGK-4 shares have been trading in the "B" lists of the stock exchange MICEX and the stock exchange RTS.

Trading in OGK-4 shares was suspended in April 2007 due to the capital reduction and the conversion of the shares of the first issue (nominal value 1 ruble) into shares of the second issue with a lower nominal value (0.4 rubles). After the cancellation of the shares of the first issue and the actual placement of the shares of the second issue, trading in OGK-4 securities on the RTS was restarted on May 14 and on MICEX on May 24.

Throughout the first three quarters of 2007, OGK-4's shares moved in various directions. The overall growth in the electricity generating sector led to an increase in share quotes at the beginning of February, the beginning of June, and the end of July. On the other hand, the general market correction was the reason for a reduction in the OGK-4 share price in the last days of February. The general instability on the world stock market in August, and also the absence of liquidity in the markets in the BRIC countries led to a reduction in investor interest, which continued until the middle of September, when the price and liquidity of the Company's shares began to rise as the sale of the stake in the Company by RAO UES of Russia grew nearer.

On September 17, after E.ON had been officially declared successful in the tender for the purchase of the stake in

### OGK-4 Share Price Performance, RTS





OGK-4 belonging to RAO UES of Russia, and the price was set at RUR 3.3503 per share, the Company's securities on MICEX fell somewhat. On the RTS, on the contrary, the shares rose by more than 2%, although liquidity remained at a fairly low level. An increase in the liquidity began as from the middle of November: this was the time of a sharp increase in the average daily volume of trading in OGK-4 shares on the MICEX. In December the volume of trading on the MICEX declined, whereas on the RTS it was much higher than in the previous month.

The Company's share quotes in 2007, supported by E.ON's offer, closed at \$0.133 on the RTS and 3.265 rubles on the MICEX. By the end of 2007 OGK-4's market capitalization on the RTS amounted to \$8.38 billion, and 160.4 billion rubles on the MICEX.

## DIVIDEND POLICY

OGK-4's dividend policy is based on the principle of equilibrium between the shareholders' wish to receive each year a part of the net profit in the form of dividends and their desire to invest profits in the development of the Company. These factors are analyzed before the Annual General Meeting by the Board of Directors of OGK-4, which then makes its recommendations for the payment of dividends. The final resolution is passed by the shareholders of the Company in General Meeting.

In distributing and paying dividends, OGK-4 complies with the requirements of the Federal Law "On joint-stock

companies" and the Charter of the Company. The dividends are declared in rubles and paid by postal and/or bank transfers.

Dividends are paid not later than 60 days from the resolution on their distribution. The list of shareholders entitled to dividends is prepared together with the list of those entitled to attend the General Meeting, which passes the resolution on payment.

At the AGM of OGK-4 on May 25, 2007 a resolution was passed for the payment of dividends for 2006 in the amount of 0.004071 rubles per ordinary share, and also in the amount of 0.0030531 rubles per ordinary share, based on the results of operations in the first quarter of 2007.

## INFORMATION ABOUT THE REGISTRAR

The registrar, which maintains the register of shareholders in OGK-4, is OJSC "Moscow Central Depository" (OAO MCD). The Board of Directors approves the registrar and the conditions of the contract between the Company and the Registrar. OAO MCD has been providing registrar services for the shareholders of OGK-4 since April 29, 2005. The registrar's website address is: <http://www.mcd.ru>.

### OGK-4 Share Price Performance, MICEX





# Corporate governance

## GENERAL PRINCIPLES OF CORPORATE GOVERNANCE

OGK-4 pays serious attention to the development of corporate governance as one of the key factors in the efficient functioning of the Company. Not only we comply with Russian corporate legislation; we also strive to meet present-day international standards and best practices. The Company is committed to developing a management system based on the principles of observance and protection of shareholders' rights, openness and information transparency, clear reporting of the Company's management bodies, monitoring of financial and economic activities, and efficient functioning of the executive bodies.

Today OGK-4's founding corporate documents are as follows:

- The Charter;
- The Code of Corporate Governance;
- Regulation for the Preparation and Conduct of General Meetings of Shareholders;
- Regulation for Convening and Conducting Meetings of the Board of Directors;
- Regulation on the Secretary and Secretariat of the Board of Directors;
- Regulation on the Internal Audit Commission.
- Regulation on the Internal Audit Department;
- Regulation on Information Policy.

The Company intends to scrutinize the existing system of corporate governance in terms of its efficiency, business realism and compliance with the underlying legislation. This work should result in constant improvements of management procedures, while the basic principles will remain unchanged.

OGK-4 combines clear and efficient rules of corporate governance with regular information for its stakeholders. Since 2006 the Company has been publishing financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The Company runs a shareholder and investor relations department. OGK-4 is an active participant in various industrial and business conferences, and regularly holds individual meetings with the representatives of the capital markets. The Company discloses all material information on the corporate website [www.ogk-4.ru](http://www.ogk-4.ru) as well as via newswires. OGK-4 holds regular briefings for the media.

In 2007 the Standard & Poor's rating agency assigned the Company a corporate governance rating at the level "4" ("4.4") on the Russian scale.

## MANAGEMENT BODIES

The OGK-4 system of management bodies consists of the following levels:

- General Meeting of Shareholders;
- The Board of Directors;
- The Management Board;
- General Director.

### General Meeting of Shareholders

The General Meeting of Shareholders is the Company's supreme governing body. The powers of the General Meeting of Shareholders are set forth in the law "On joint-stock companies" and Article 10 of the Company Charter. Convocation, preparation, and conduct of General Meetings of Shareholders are governed by the Regulation

for the Preparation and Conduct of General Meetings of Shareholders of OGK-4.<sup>1</sup>

Until July 1, 2006, the functions of the Company's General Meeting of Shareholders were performed by the Board of Directors of RAO UES of Russia. The first Annual General Meeting of the Company's shareholders was held on May 25, 2007 in Moscow. During the year OGK-4 held five Extraordinary General Meetings, which took the following important decisions:

- Reduction of the Company's charter capital by reducing the nominal value of shares;
- Capital increase and issue of additional shares;
- Election of the Board of Directors and Audit Commission and approval of the independent auditor;
- Payment of dividends according to the results for the first quarter of 2007;
- Approval of contracts for the construction of additional capacity at Shaturskaya GRES and Surgutskaya GRES-2 as major transactions requiring the approval of the Shareholders' General Meeting;
- Approval of the conditions of the contract for the capacity supply to the wholesale market, and of regulated and free agreements for the purchase and sale of electricity and/or capacity between OGK-4 and interested persons;
- Resolution on the reorganization of OGK-4 by merger with OGK-4 Holding, established in course of reorganization of RAO UES of Russia, on the conditions stipulated in the merger agreement.

## Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that fall within the exclusive authority of the General Meeting of Shareholders. Its competence extends to, inter alia, defining the Company's strategy, control over financial and economic activity, maintaining the efficiency of the system of internal control, and supervising the activities of the executive bodies.

The activities of the Board of Directors are governed by the Regulations for convening and conducting meetings of the Board of Directors of OGK-4<sup>2</sup>.

The Board of Directors, which held office during 2007, was elected by the Annual General Meeting of Shareholders on May 25, 2007. It comprised 11 members, 10 of whom were independent non-executive directors. The only executive member of the Board of Directors was Andrey Kitashev, general director of OGK-4.

**Yuri Makushin**, *chairman of the Board of Directors. Deputy managing director of Business Unit 2, RAO UES of Russia*

From 2001 to 2004 he held office as financial director of OJSC "Middle Volga Inter-regional Energy Management Company", Samara. Until 2001 Mr. Makushin was the deputy managing director for economics and finance of OJSC Samaraenergo, Samara.

At present Yuri Makushin is also chairman of the boards of directors of OJSC Omskenergo, OJSC "Penza Energy Supply Company", OJSC Krasnoyarskenergo, and OJSC TGK-13, and a member of the boards of directors of OJSC Ulyanovskenergo, OJSC "Volzhskaya TGK", OJSC Tyumenenergo, OJSC Orenburgenergo, OJSC "Volzhskaya MRK", and OJSC Samaraenergo.

Yuri Makushin does not hold any shares in the Company; during 2007 there were no transactions between OGK-4 and the chairman of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Makushin.

**Andrey Kitashev**, *member of the Board of Directors General Director, OGK-4.*

Andrey Kitashev has been the General Director of OGK-4 since March 4, 2005. Until 2005 Mr. Kitashev held office as deputy general director for finance and general director of OJSC Permenergo, where he moved in 2000 from the position of deputy general director of the representative office of RAO UES of Russia "Volgaenergo", Samara.

At present Mr. Kitashev is also a member of the Board of Directors of Strategia Bank.

Andrey Kitashev holds 0.05078433% of the Company's charter capital; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Kitashev.

<sup>1</sup> The texts of the OGK-4 Company Charter, Regulation for the Preparation and Conduct of General Meetings of Shareholders, Regulation for Convening and Conducting meetings of the Board of Directors, and the minutes of General Meetings of Shareholders are published in the section 'About the Company — Company documents' of the Company's website at [www.ogk-4.ru](http://www.ogk-4.ru)

<sup>2</sup> The text of the Regulation for Convening and Conducting meetings of the Board of Directors is published in the section 'About the Company — Company documents' of the Company's website at [www.ogk-4.ru](http://www.ogk-4.ru)

**Dmitry Fedorchuk**, *deputy chairman of the Board of Directors  
Head of the Department of Corporate Governance, Business Unit 2,  
RAO UES of Russia*

Since 2000 Dmitry Fedorchuk has been working in the Department of Corporate Governance of Business Unit 2, RAO UES of Russia.

Besides OGK-4, Mr. Fedorchuk is a member of the boards of directors of OJSC "Penza Energy Supply Company", OJSC "Volzhskaya TSK", OJSC "Nizhniy Novgorod Main Network Company", OJSC "Saratov Industrial Maintenance Company", and the chairman of the Board of Directors of OJSC "Khakasskaya Service and Maintenance Company".

Dmitry Fedorchuk does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Fedorchuk.

**Igor Yurgens**, *member of the Board of Directors  
Chairman of the Board of Directors, Renaissance Capital*

Before "Renaissance Capital" Mr. Yurgens held office as executive secretary of the RSPP; in 1998–2000 he was chairman of the All-Russia Association of Insurers; in 2000–2004 he was chairman of the Financial Markets Commission for the RF Chamber of Commerce and Industry.

Igor Yurgens does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Yurgens.

**Alexey Kachay**, *member of the Board of Directors  
Deputy head of the Strategy Department, RAO UES of Russia.*

At present Alexey Kachay is also a member of the boards of directors of OJSC "Petersburg Supply Company", OJSC "Omsk Main Network Company", and OJSC "Omsk Electricity Generating Company". In 2001–2002 he held office as head of the Strategic Planning Group, OJSC "Omsk Bacon".

Mr. Kachay has worked in RAO UES of Russia since 2002 as chief expert, then division head in the Strategy Department. At present he is deputy head of the Strategy Department.

Alexey Kachay does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Kachay.

**Mikhail Lisysansky**, *member of the Board of Directors  
Deputy managing director, Business Unit 2, RAO UES of Russia*

At present Mikhail Lisysansky is also chairman of the boards of directors of OJSC OGK-2, OJSC "Southern-Kuzbass GRES", OJSC Kurganenergo, and also of a number of service companies. From 1999 until 2003 he worked in OOO Gazenergosnab, Samara. From 2003 to 2006 he held office as director for administration of subsidiary and affiliated service companies of OJSC SMUEK. Since 2006 he has been deputy managing director of Business Unit 2, RAO UES of Russia.

Mikhail Lisysansky does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Lisysansky.

**Mikhail Molchanov**, *member of the Board of Directors  
Deputy head of the Project Implementation Department, Business Unit 2, RAO UES of Russia.*

Mikhail Molchanov does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Molchanov.

**Elena Evseyenkova**, *member of the Board of Directors  
Deputy head of the Department of Economic Planning and Financial Control, Business Unit 2, RAO UES of Russia.*

Elena Evseyenkova does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mrs. Evseyenkova.

**Stanislav Neveynitsyn**, *member of the Board of Directors  
Deputy general director of OJSC Mezhrayonenergosbyt*

Stanislav Neveynitsyn does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Mr. Neveynitsyn.

**Elena Ulanovskaya**, *member of the Board of Directors  
Head of the Department of Corporate Governance, Business Unit 2,  
RAO UES of Russia*

Elena Ulanovskaya does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Ms Ulanovskaya.

**Anna Vasilieva**, *member of the Board of Directors*  
*Deputy head of Personnel Department, Corporate Centre of RAO UES of Russia*

Anna Vasilieva does not hold any shares in the Company; in 2007 there were no transactions between OGK-4 and this member of the Board of Directors.

The Company does not have any information about any proceedings pending against Ms Vasileva.

### Board of Directors as at the end of 2007

On December 21, 2007 the Extraordinary Meeting of Shareholders in OGK-4 called by E.ON elected a new Board of Directors.

**Lutz Feldmann**, *member of the Management Board, E.ON AG*  
**Marcus Schenck**, *member of the Management Board, E.ON AG*  
**Bernd Dubberstein**, *managing director of E.ON Russia Power*  
**Sebastian Eisenberg**, *managing director of E.ON Russia Power*

**Frank Siebert**, *managing director of E.ON Russia Power*  
**Artyom Bykov**, *chairman of the Board of Directors of LLC Korporatsia STS*

**Yuri Makushin**, *deputy managing director of Business Unit 2, RAO UES of Russia*

**Andrey Kitashev**, *General Director of OGK-4*

**Alexey Kachay**, *deputy head of strategy, RAO UES of Russia*

**Mikhail Lisiansky**, *deputy managing director of Business Unit 2, RAO UES of Russia*

**Igor Yurgens**, *first vice-president, Renaissance Capital*

### Summary of meetings of the Board of Directors in 2007

From May 25 to December 21, 2007 there were 22 Board meetings. In 2007 the Board of Directors of the Company held 41 meetings in total.

The focus of the OGK-4 Board of Directors in the second half of 2007 was on implementation of the investment program, the capital increase and additional issue of shares, improving the system of internal control, and also improving the operational efficiency of the Company.

The Board of Directors considered the following key issues:

- Progress in implementing the investment projects;
- Approval of the regulations on the management of OGK-4 investment funds;

- Approval of the decision on the additional issue of the Company's shares;
- Determining the price of the placement of additional shares;
- Approval of transactions for the placement of temporarily free investment funds;
- Approval of key performance indicators for OGK-4;
- Approval of the Regulations on the Company's internal audit;
- Amendments to the non-State pension program for the employees of the Company in 2007;
- The organization of OGK-4's procurement procedures;
- Approval of the updated stock options plan.

The resolutions of the Board of Directors can be found on the website of the Company at <http://www.ogk-4.ru>.

### Information about the remuneration and compensations to the members of the Board of Directors.

The remuneration and compensations to members of the Board of Directors, and also the procedure for their payment, are governed by the Regulation on Payment of Remuneration and Compensations to the Members of the Board of Directors.<sup>1</sup> The key factors defining the remuneration of the members of the Board of Directors are the quantity and form (in presentia or in absentia) of their participation in Board meetings. Furthermore, Board members are entitled to additional remuneration depending on the net income of OGK-4 and growth of the Company's capitalization during the period of office of the Board.

The total amount of remuneration and compensations paid to members of the Board of Directors of the Company in 2007 is 21,684,285.09 rubles.

### Committees of the Board of Directors

An Audit Commission and a Reliability Committee of the Board of Directors have been established and are functioning. The committees report directly to the Board of Directors.

#### RELIABILITY COMMITTEE

The Reliability Committee provides consulting support to the OGK-4's Board of Directors in solving problems connected with the examination of investment programs, plans for generating plant maintenance and the monitoring

<sup>1</sup> The text of the Regulation is available on the website of OGK-4 [www.ogk-4.ru](http://www.ogk-4.ru) in the section "On the Company — Documents of the Company".

and assessment of the technical services. The functioning of the Committee is regulated by the Regulation on Reliability Committee<sup>1</sup>.

The committee's power extends to the preliminary study of questions and analysis and formulation of recommendations (conclusions) to the Board of Directors on the principal aspects of ensuring reliability.

#### **Composition of the Reliability Committee**

Chairman of the Committee

**Oleg Kulpin**, *head of production analysis and methodology, Business Unit 2, RAO UES of Russia*

Members of the Reliability Committee:

**Sergey Bakhmetov**, *deputy general director for production, OGK-4*

**Evgeny Gorev**, *head of production and technical division, OGK-4*

**Roman Lenkov**, *deputy general director for finance and economics, OGK-4*

**Alexey Nazarenko**, *head of "Centrenergotekhnadzor" technical inspection center*

**Sergey Raykhel**, *head of repairs and maintenance, OGK-4*

In 2007 the Reliability Committee held two meetings, at which the following issues were considered:

- The results of preparation of the Company's branches for the 2007 repair and maintenance campaign;
- The results of preparation of the Company's branches for the 2007 flood period;
- The results of operations of the Company's branches in the 2006–2007 autumn-winter peak load period and tasks in the preparation and implementation of measures for operations in 2007–2008 peak load period.

The Company did not pay any remuneration to the members of the Reliability Committee in 2007.

#### **AUDIT COMMISSION**

The OGK-4 Audit Commission oversees the preparation of the Company's financial statements, the meeting of financial targets, and the internal and external financial audit of the Company. Furthermore, the Committee supervises the work of the independent auditors, makes recommendations on their appointment and remuneration, and consults the Board of Directors on the improvement of internal control procedures.

The functioning of the Committee is governed by the Regulation on the Audit Commission of the Board of Directors<sup>1</sup>.

#### **Composition of the Audit Commission**

Chairman of the Audit Commission

**Yuri Makushin**, *deputy managing director, Business Unit 2, RAO UES of Russia*

Members of the Audit Commission

**Dmitry Fedorchuk**, *head of the Department of Corporate Governance, Business Unit 2, RAO UES of Russia*

**Elena Evseyenkova**, *deputy head of the Department of Economic Planning and Financial Control, Business Unit 2, RAO UES of Russia*

In 2007 the Audit Commission held 6 meetings. In 2007 the Audit Commission examined the Company's financial statements and audit opinion for 2006 as well as the Company's financial statements for the first quarter of 2007.

The Company did not pay any remuneration to the members of the Audit Commission in 2007.

<sup>1</sup> The texts of the Regulations are published in the 'About the Company — Company documents' section of the Company website at [www.ogk-4.ru](http://www.ogk-4.ru).

## MANAGEMENT BOARD



The Management Board is a collegiate executive body that controls the current business of the Company, within the powers granted to it by the Charter and the Regulation on the OGK-4's Management Board. It reports to the Board of Directors and the General Meeting of Shareholders. Among its key tasks are:

- Produce and submit to the Board of Directors plans for the main areas of the Company's business;
- Prepare business plans and reports on their implementation;
- Conclude deals in respect of property, works, and services to a value between 1% and 10% of the Company's balance sheet assets.

Management Board members are elected by the Board of Directors and must number at least three. The OGK-4's Management Board today has nine members:

### **Andrey Kitashev, 50**

*General Director, OGK-4, chairman of the Management Board*

Date of election to Management Board: March 2, 2005

Prior to 2005 Mr. Kitashev held the posts of deputy general director of finance and general director at OJSC Permenergo, which he joined in 2000 from the post of deputy general director of the Volgaenergo Representative Office of RAO UES of Russia in Samara. He is currently also a member of the Board of Directors of Joint-Stock Commercial Bank Strategia.

Mr. Kitashev's share in the Company's charter capital is 0.05078433%; in 2007 there were no deals between the Company and this member of the Board of Directors.

The Company has no information on any claims against Mr. Kitashev.





**Roman Lenkov, 34**

*Deputy general director for finance and economics, deputy chairman of the Management Board.*

Date of election: March 2, 2005

Roman Lenkov came to OGK-4 from Permenergo where he had worked since 1997 as deputy head of the Finance Department, deputy head of the Treasury, head of the Budget and Off-budget Funds Division, head of the Finance Division, and deputy general director for finance.

Roman Lenkov's share in the Company's charter capital is 0.0001400740%; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Lenkov.



**Sergey Bakhmetov, 50**

*Deputy general director for production, member of the Management Board*

Date of election: January 23, 2007

Mr. Bakhmetov was appointed deputy general director for production in December 2006. From 2000 to 2006 he was director of Surgutskaya GRES-2, a part of Tyumenenergo until July 1, 2005, then spun off from this company and merged with and into OGK-4.

Mr. Bakhmetov does not hold any shares in the Company; in 2007, there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Bakhmetov.





**Andrey Buzov, 38**

*Deputy general director for personnel management, member of the Management Board*

Date of election: June 30, 2005.

Andrey Buzov was appointed deputy general director for personnel management in 2005. From 2001 to 2005 Mr. Buzov held the position of director for personnel management of Management Company Volga Hydroelectric Cascade.

Mr. Buzov does not hold any shares in the Company; in 2007, there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Buzov.



**Sergey Zhizhoma, 34**

*Deputy general director for corporate policy, member of the Management Board*

Date of election: June 30, 2005

Sergey Zhizhoma was appointed deputy general director for corporate policy in 2005. Before joining OGK-4, he worked at Permenergo, holding the positions of deputy general director for legal matters and corporate policy from 2003 to 2005, and head of the Legal Department from 2002 to 2003.

Sergey Zhizhoma does not hold any shares in the Company; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Zhizhoma.



**Andrey Zhukovsky, 45**

*Deputy general director for energy markets, member of the Management Board*

Date of election: June 30, 2005

Mr. Zhukovsky has been deputy general director for energy markets since 2005. From 2003 to 2005, he was an assistant to general director and head of the Department for the Development of the Energy Market of Permenergo.

Andrey Zhukovsky does not hold any shares in the Company; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Zhukovsky.



**Pavel Pestryakov, 45**

*Deputy general director for information technologies*

Date of election: June 14, 2006

Pavel Pestryakov was appointed deputy general director for information technologies in June 2006. Before joining OGK-4, he was technical director of Inkom-Nedvizhimost Corporation (2004–2006), technical director of INKOM Corporation (2004), deputy general director of information systems of scientific and technical center Invest-Trade LLC (2004), and head of the Information Technologies Department of Sugar Trading Company (2001–2004).

Pavel Pestryakov does not hold any shares in the Company; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Pestryakov.



**Vladimir Fedotovskiy, 43**

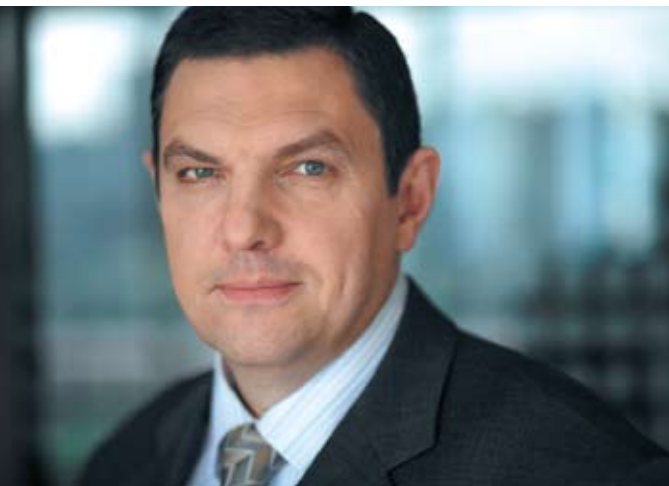
*Deputy general director for resources and general matters, member of the Management Board*

Date of election: June 30, 2005

Mr. Fedotovskiy was appointed deputy general director for resources and general matters in 2005. Before 2005 he occupied the position of deputy general director for resources supply and general matters of Permenergo for 4 years.

Mr. Fedotovskiy does not hold any shares in the Company; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Fedotovskiy.



**Vladimir Cherevko, 52**

*Deputy general director for investments and development, member of the Management Board*

Date of election: January 23, 2006

Vladimir Cherevko has been OGK-4's deputy general director for investments and development since January 2006. From 2005 to 2006, he held the positions of deputy general director for investments and capital construction of TGK-9, from 2003 to 2005 — deputy general director for capital construction, investments and development of Permenergo. From 2000 to 2003, Mr. Cherevko was general director of Instroy LLC.

Vladimir Cherevko does not hold any shares in the Company; in 2007 there were no deals between the Company and this member of the Management Board.

The Company has no information on any claims against Mr. Cherevko.

### Summary of meetings of the Management Board

The Management Board met 59 times in 2007 and discussed all aspects of the Company's operations. During the year, the members focused on work to produce and adopt a strategy for the development of OGK-4 to 2010, and the implementation of the Company's investment program. An important part of the agenda were matters relating to the preparation and execution of the business plan, maintenance and procurement programs, the effectiveness of energy market operations, training in 2007, etc. Progress reports on all aspects of OGK-4's business were made quarterly.

### Information on remuneration and compensation to members of the Management Board

Remuneration and compensation to members of the Management Board is paid in accordance with their contracts of employment. Terms and conditions of such contracts are set and signed off on behalf of OGK-4 by the chairman of the Board of Directors or his authorized representative.

In 2007 no remuneration or compensation was paid to members of the Management Board.

### The General Director

The General Director is single-handedly an executive body of OGK-4 in his own right. His competences include all matters relating to the management of the current activities of the Company, unless they fall immediately within the purview of the General Meeting of Shareholders, Board of Directors, or Management Board.

The powers of the General Director include the right to represent the interests of the Company, make, without the need for approval from any management body, deals not exceeding 1% of the Company's balance sheet assets, dispose of property, open settlement or other accounts at banks or other credit institutions, approve the establishment, give orders, and adopt standing instructions, local regulations, and other internal documents. The General Director reports to the OGK-4's Board of Directors. His remuneration is determined by the Regulation on Material Incentives, which governs the terms and conditions of his contract of employment.

The General Director is elected by the Board of Directors of the Company by a majority of the votes of the members present. Andrey Kitashev has served uninterruptedly as General Director of OGK-4 since March 2005.

### Information on remuneration and compensation to the General Director

The Company has a Regulation on Material Incentives to the General Director, which forms an integral part of his contract of employment.

It governs all matters of material incentives and specifies the means for the determination, approval, and alteration of the salary paid to the General Director.

No rewards other than those provided for in the Regulation on Material Incentives have been paid to General Director in 2007.

## INTERNAL SUPERVISION AND AUDIT

### Audit Commission

To provide shareholder supervision of the Company's financial and economic activities the General Meeting of Shareholders elects an Audit Commission. It undertakes regular checks of the financial and economic activities of the Company, its separate component entities, officials, management bodies, and executive structures. The powers and procedures of the Audit Commission are laid out in the Regulation on the OGK-4's Audit Commission, which is posted in the "About the Company — Company documents" section of the Company website at <http://www.ogk-4.ru>.

The Audit Commission consists of five members. The General Meeting of Shareholders elected the following members to the Audit Commission on May 25, 2007:

**Ludmila Matyunina**, *first deputy head of the Internal Audit Department, Corporate Center, RAO UES of Russia*

**Polina Smirnova**, *chief expert, Department of Corporate Governance and Shareholder Relations, Corporate Center, RAO UES of Russia*

**Elena Smirnova**, *head of the Economic Planning and Financial Control Department, Business Unit 2, RAO UES of Russia*

**Stanislav Patrikeev**, *head of the Internal Audit Department, OGK-4*

**Olga Starshinova**, *deputy head, Logistics and Procurement Department, Business Unit 2, RAO UES of Russia*

In 2007 members of the Audit Committee received remuneration amounting to 773,795 rubles.

### Audit Commission as at the end of 2007

An Extraordinary Meeting of OGK-4 Shareholders was called by E.ON and took place on December 21, 2007. It elected a new Audit Commission comprising:

**Michael Wilhelm**, *senior vice-president, Accounting, E.ON AG*  
**Andreas Kolpatzik**, *vice-president, Audit, E.ON AG*  
**Mario Mazidowski**, *financial director, E.ON Russia Power GmbH*  
**Elena Smirnova**, *head of Economic Planning and Financial Control Department, Business Unit 2, RAO UES of Russia*  
**Stanislav Patrikeev**, *head of Internal Audit Department, OGK-4*

### Internal audit department

Internal audit of OGK-4's financial, economic and production activities is in the charge of an autonomous division, the Internal Audit Department. Its role includes ensuring timely high-quality internal audits and inspections designed to make the most effective use of Company resources, and evaluating the effectiveness of systems of risk management, supervision, and corporate governance. The department reports to the General Director and acts in the framework of a regulation adopted by the Board of Directors in June 2007.

During 2007 the Internal Audit Department did much work to examine the Company's internal business processes. It conducted an audit of OGK-4's organizational structure, systems of internal supervision and procurement, the process of selling electricity in the unregulated market segment, and the financial and economic activities of Berezovskaya GRES and Surgutskaya GRES-2.

### Independent auditor

On May 25, 2007 the General Meeting of Shareholders appointed ZAO PriceWaterhouseCoopers Audit as the Company's independent auditor. The level of remuneration of the auditor is set by the Board of Directors of the Company. The level of remuneration paid to the auditor for auditing OGK-4's financial accounts for 2007 prepared in accordance with Russian Accounting Standards was set at 4,400,000 rubles.

## INFORMATION ON SUBSIDIARY AND DEPENDENT COMPANIES

In 2007 OGK-4 ceased to be a shareholder of OJSC Transavto and OJSC SMU. OGK-4 had received shares in those companies in the reorganization when the power plant JSCs, including Berezovskaya GRES, merged with and into the Company. At the same time, OGK-4 created and became a shareholder in three companies in 2007. All of them are wholly-owned subsidiaries of OGK-4. LLC Teplosbyt was set up to participate, together with administrations in the regions where the Company's power plants are located, in

organizations to manage multiple-occupancy dwellings. LLC OGK-4 Finance was set up to support the implementation of the OGK-4's stock option program and is the operator of that program. OJSC Avtotransaero was created in the course of restructuring the business and the disposal of the Company's non-core assets.

## INTERESTED PARTY TRANSACTIONS

In accordance with the Russian law, before interested party transactions can be carried out, they must be approved by the Company's Board of Directors, by a majority of the votes of independent directors with no interest in the transaction, or by a decision of the General Meeting of Shareholders. If all members of the Board of Directors are deemed interested or are not independent, or the subject of the transaction or several associated transactions is valued, according to the Company's financial statements, to be 2 or more per cent of the Company's balance sheet value of the assets, making that transaction is subject to approval of the General Meeting of Shareholders by the majority vote of all shareholders not interested in the transaction.

The Company keeps track of interested party transactions by inspecting contracts and keeping a register of all such transactions and a database of information provided by the members of the Board of Directors and managers concerning the companies, in which they hold management positions or have a share. The register of interested party transactions is updated as and when the Board of Directors meets; the contracts signed by the Company are monitored weekly.



A room with red patterned wallpaper. On a shelf, there are two trophies and some books. A pennant with a lightning bolt and a shield is hanging on the wall. A wire sculpture of a hand holding a ball is on the wall. A soccer ball is on the floor. A lamp is on the right.

# 1st

place taken by the OGK-4  
team at the 2007 Russian  
energy industry winter sports  
competition

# Social responsibility

## EMPLOYEES

OGK-4 endeavors to use and develop the full potential of all its staff, respects their work and their desire to feel that they enjoy social protection. The Company regards its staff as its most important resource, without which its strategic objectives are unattainable and, even if all other components are in place, operating efficiency is impossible.

The Company's human resources system covers the full range of personnel issues across all categories of staff from manual workers, through clerical workers and specialists, up to the level of senior management and General Director's deputies. OGK-4's activities in this area are governed by a suite of internal documents, ensuring that personnel decisions are transparent and objective. In all dealings with staff, account must be taken of personal achievements, experience, and ambitions of the individual employee.

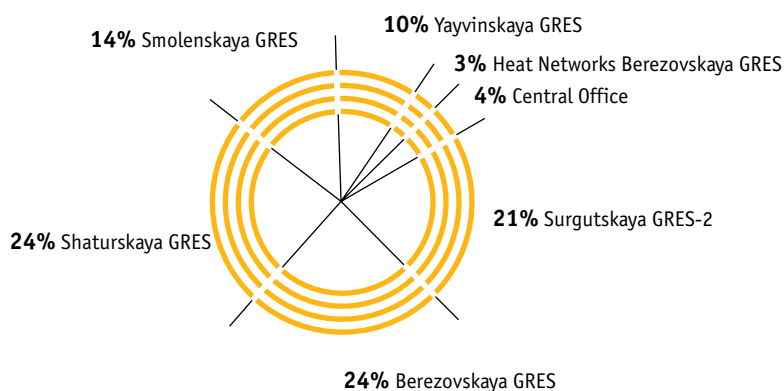
### Headcount

The headcount of OGK-4 was reduced from 5,445 in 2006 to 5,308 in 2007. The change was the result of optimizing work processes, outsourcing a number of services and disposal of various non-core activities. For instance, outside cleaners and guards were brought in at Berezovskaya GRES and Shaturskaya GRES. Maintenance staff at Shaturskaya GRES and Yayvinskaya GRES was transferred to LLC Remenergomontazh, and vehicle workshop staff at Shaturskaya GRES to OJSC Avtotransenergo. In 2008 it is planned to increase personnel numbers by taking on additional staff to deal with investment projects.

### Selection of staff to deal with investment projects

Most of OGK-4's employees are highly qualified with over ten years of experience in the energy industry. However, the Company's investment projects require new staff. It will take time and money to train them and so the establishment of the units being built is being brought up to complement gradually. Recruitment of new workers began at Shaturskaya GRES and Surgutskaya GRES-2 in 2007. The staff of the new units will be formed from experienced, qualified workers at the GRES, who will be gradually replaced by fresh recruits after the latter have received the necessary training. The Company is keen to recruit young specialists of great potential. Good university graduates recruited to work at the new units may get help from the Company to improve their living conditions. OGK-4 tries to maintain tried and tested mechanisms of peer-to-peer cooperation, to

### OGK-4 Headcount by Branches





attract the most experienced employees to work on newly commissioned units and backfill with promising young staff.

### Training and qualifications

As it is implementing an investment program for the construction of new power units, OGK-4 is particularly attentive to raising the qualifications of its staff so that they possess new, current skills and are able to react to rapidly changing circumstances. Special attention is paid to training programs for industrial and production personnel. The programs, which are agreed with the Russian technical inspectorate Rostekhnadzor, are used to further the qualifications of manual workers, managers, and specialists alike. In 2007, 3,242 employees (60% of the Company's headcount) received training. Professional skills were tested in competitions between OGK-4 branches held at Surgutskaya GRES-2 in October 2007.

A Regulation on the Qualification of Workers at OGK-4 branches was adopted in April 2007. Testing is carried out in order to establish individuals' level of professional training and assign them to appropriate positions. Depending on the results, workers may be promoted to a higher grade and the Company builds up a pool of qualified staff. In addition, test results form the basis for forward training plans for OGK-4 employees, allow strengths and weaknesses to be identified, and permit a targeted approach to training. The Company is introducing the Persona automated staff evaluation system for greater efficiency in assessing the professional and personal qualities of its staff. The system was successfully trialed at Smolenskaya GRES in June 2007.

OGK-4 is particularly concerned to create a talent pool. To that end the Company monitors continuously its best-

qualified and most promising specialists, who could, with further training, move to more senior jobs and make a larger contribution to the success of the Company. The existence of a talent pool is a further incentive for staff. Once enrolled in the talent pool, the Company employees have priority for training to raise their qualifications at the Company's expense.

### Personnel incentives

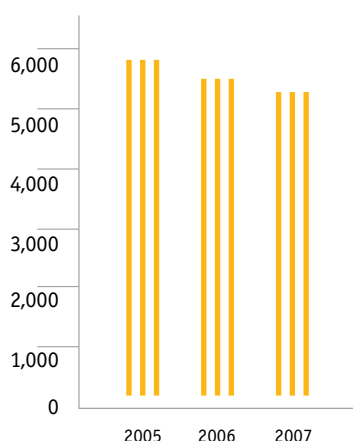
In 2007 the Company signed collective agreements with its branches for 2007–2010. Such agreements are based on the RF Labor Code and industrial tariff agreements, and draw also on standard principles regulating social and labor relations, and the particular regional peculiarities of the power plants. The agreements are legal documents specifying the rights and responsibilities of the parties as social partners. The collective agreements are based on principles of equality and respect for people and their rights, and the legitimate interests of employers and employees in the context of social partnership.

Employee remuneration comprises two elements, a fixed part and a variable part. The fixed part depends on the employee's qualifications and position; bonuses and rewards are paid for specific results. In 2007 the average pay in each of OGK-4 power plants was above average pay in the respective regions.

### Non-state pension provision

OGK-4 regards non-state pension provision as an instrument for raising the income of staff when they retire and draw a pension, and for establishing long-term labor relations. The Company launched its non-state pension scheme in December 2005. It includes two principal pension plans, a corporate plan and a matched-funding plan (2007 onwards). Under the corporate plan, pension accounts have been opened in the names of 1,023 OGK-4 employees. In 2007 the number of pensioners already receiving non-state pensions rose by 41% to 402. The average amount of the non-state pension is 1,264 rubles per month, which is 20% above the 2006 level. By the end of 2007, 1,647 OGK-4 employees had signed up under the matched-funding plan. That is 31% of all staff. In 2008 the Company will continue to encourage staff to join the matched-funding scheme.

### OGK-4 Headcount



### HEALTH AND SAFETY

The nature of work at power plants means contact with machinery and substances there are often hazardous to

human health. Therefore OGK-4 is particularly concerned about health and safety at work. Federal law requires that conditions at workstations are inspected and health and safety action is certified. In 2007 workstations at Surgutskaya GRES-2, Smolenskaya GRES, Shaturskaya GRES, Yayvinskaya GRES, and Heat Networks of Berezovskaya GRES were inspected, and positive reports were obtained from official state experts. Measures have been developed and implemented to improve working conditions by providing individual protective equipment, ensuring proper ventilation, and improving lighting and sanitary provision and common areas. At all power plants steps have been taken to limit or exclude contact with hazardous substances (sealed containers, ventilated rooms, concrete cladding of waste storage areas; a collection and cleaning system for accumulating and purifying waste water contaminated with fuel oil is planned). Personnel operating hazardous machinery or working with hazardous wastes receives training and is tested in industrial and environmental safety. Contracts of insurance have been signed to cover liability for harm sustained during working on hazardous industrial plant.

To prevent industrial injuries, OGK-4 arranges briefings and anti-accident and fire training. Information on actual and potential cases of injury at work in the electricity industry is being analyzed; technical devices which may be used on hazardous industrial machinery undergo diagnostic examination and certification. This data serves as the basis for developing ways of reducing possible injuries and preventing adverse effects on the environment.

Health and safety is one of the Company's corporate policy priorities. The results are self-evident. There were no accidents and no injuries at OGK-4 power plants in 2007. The Company devised and is implementing a program of measures for the prevention of industrial injuries. By the end of 2008 the program proposes to introduce a Workplace Health and Safety Management System in accordance with OHSAS 18001:1999 and Russian GOST R12.0.006-2002 standards.

In 2007 OGK-4 spent 95.7 million rubles on health and safety at work, which is about 2 million rubles more than in 2006.

## ENVIRONMENTAL PROTECTION

OGK-4 produces electricity and heat and thus has a serious effect on the environment — the state of the air, water and soil. The Company accounts for around 2.8% of the atmospheric pollution of all the companies formerly part of the holding company RAO UES of Russia. In February

2007 the OGK-4 Board of Directors adopted its 2007–2009 environmental policy implementation program. It includes measures designed to mitigate adverse effects on the environment and limit ecological risk. OGK-4 plans to invest 537.7 million rubles in environmental protection over the course of the program.

In 2007 the volume of atmospheric and water pollutants emitted and the volume of solid waste produced by OGK-4 power plants remained below the specified limits. While electricity production increased by 6.3%, atmospheric pollution was reduced by 4.7%. That was the result of reducing the proportion of fuel oil in the Company's fuel mix and the volumes of solid fuel burnt at Smolenskaya, Yayvinskaya, and Shaturkskaya GRES.

94.4% of all solid pollutants were ashes from burning coal. They were deposited at ash-ponds belonging to branches of the Company. Berezovskaya GRES, which uses brown coal, produced the greatest amount of waste (around 214,000 tons). The Company's other power plants burn gas either in whole (Surgutskaya GRES-2) or in part, and produce negligible waste.

Payments for disposal of solid waste are the largest environmental charge borne by OGK-4. In 2007 its branches paid about 70 million rubles (almost 90% of all payments for polluting the environment) for disposal of industrial waste. The total amount paid for harm to the environment was slightly more than 80 million rubles.

Most of the wastewater from OGK-4's power plants is water that has been used for cooling and is returned to the environment. All the Company's branches, except Yayvinskaya GRES, use circulating systems to cool their condensers. In 2007 Shaturskaya and Yayvinskaya GRES both experienced heat pollution above the allowed limit. Over the year, Surgutskaya GRES-2 cut its wastewater by 11%. That result was possible thanks to the replacement of filters. The total volume of wastewater from OGK-4 power plants was cut in 2007 by 5.2% or 32.8 million cubic meters. Process water was reduced by 4%.

OGK-4 intends to continue to minimize adverse effects on the environment and is taking specific action to do so. The Company's investment program contains provisions for reducing environmental damage in the short and long term. When the new capacities — CCGT with 57% efficiency — come on stream, it will be possible to reduce harmful emissions. However, because it is planned to increase electricity production and alter OGK-4's fuel mix to favor solid fuels, even if the rate of emissions is cut, the total amount of atmospheric pollution will still rise, and more will have to be spent on storing hazardous waste and paying for

environmental pollution. The Company will spare no effort to reduce adverse effects on the environment.

OGK-4 aims to achieve compliance with international standards of environmental protection and intends to place its efforts in this area on a systematic footing. In 2007 it began to introduce a system of environmental audits and management in accordance with ISO 14001. The first internal environmental audit has already taken place. Subsequently they will be held regularly. Work to prepare and conduct the internal environmental audit was highly praised by the UES Energy Efficiency Center — the leading organization of RAO UES of Russia for the introduction of Environmental Management Systems (EMS). For 2008 OGK-4 has offered itself as a pilot project for the introduction of EMS and a cost-sharing scheme was proposed to finance it.

The total amount spent by OGK-4 on environmental protection activities in 2007 was 192.2 million rubles.

## SPONSORSHIP AND CHARITABLE GIVING

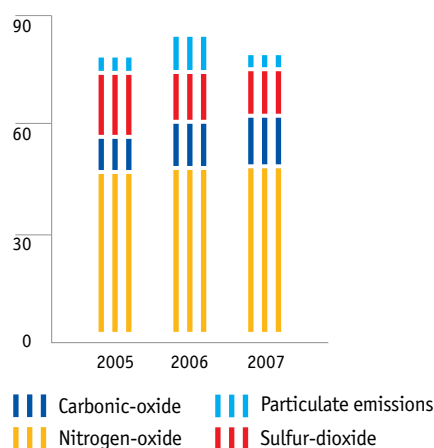
OGK-4 makes a sizeable contribution to improvements in the social sphere in the regions where it maintains presence. The Company is aware that such support is necessary, takes an active part and regards it as an important token of long-term success. In many cases its power plants are the focal points for towns and are the dominant factor in the lives of local people. In aiding local communities, the Company is taking care of the direct consumers of its products, electricity and heat, as well as its employees and their families. OGK-4 aims to show respect and care for people and regards doing so as a crucial factor to the sustainable development of its business.

OGK-4 provides both spontaneous, targeted assistance to citizens in particular need and planned support to social projects and organizations, which it selects according to objective criteria. The Company focuses on concrete results and acts in the belief that ultimately investments must have a good effect on the socio-economic stability of the regions where it operates and promote loyalty in its employees.

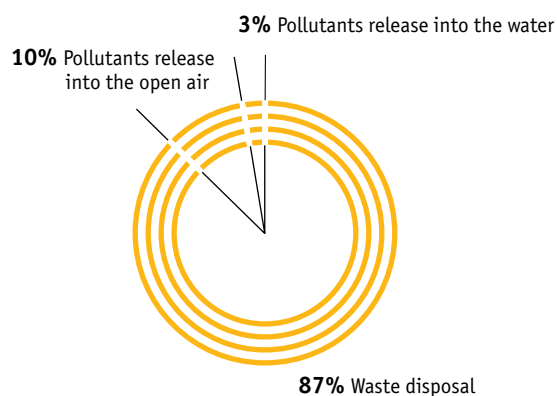
One priority for social spending is to support schools, kindergartens, and hobby clubs — particularly those attended by the children of OGK-4 employees. The Company finances refurbishments and decorations, buys furnishings, books, teaching materials, toys, and electronics. Funds are made available for medical treatment (principally expensive operations) for employees and their children. In 2007 the targeted aid for OGK-4's staff amounted to 470,000 rubles.

The Company attaches importance to patriotic education and helps with celebrations to mark Victory Day, makes gifts to veterans and finances searches and decent burials for the remains of Soviet soldiers. Some money goes to projecting an image as an excellent employer and encouraging children (particularly in their last years at school) to take an interest in working in the energy industry. The Company is involved in Day of the Energy Worker in the towns where it has power plants. It helps organize thematic displays in museums, supports former power plant workers and makes annual grants to outstanding students at leading universities who are planning to come to work at OGK-4 facilities. In November the Yayvinskaya GRES set up a Young Energy Worker club. Its members were final-year pupils from secondary schools of the village of Yayva in Perm Krai, where the power plant is located. The total investment in stimulating interest in energy careers was over 600,000 rubles in 2007. In 2008 OGK-4 intends to organize math and

**Pollutants Release into the Open Air,**  
thousands tons



**Charges for Negative Environmental Impact**



physics competitions for final-year pupils, and to pay for the brightest kids to study thermal power or electromechanical engineering at university.

The Company feels bound to develop the social sphere in those regions where its activities actually take place, but also participates in and supports federal projects. Over 2 million rubles was given to the Oleg Tabakov charitable foundation for the lease of scenery for new productions. Over 2.5 million rubles were given in aid to the "Give Life" fund which raises funds for the treatment and rehabilitation of children suffering from cancer. 1.5 million rubles were given in 2007 to the Russian Children's Clinical Hospital. Under the program "Illustrated Books for Little Blind Children" OGK-4 gave around a thousand books on New Year's Eve to special kindergartens and schools in Krasnoyarsk, Surgut, Perm, Solikamsk, Smolensk, Vyazma, and Shatura.

OGK-4 creates and maintains partnerships with local administrations. The Company's raison d'être of improving the region's electricity supply encourages a positive

attitude to its work. In places where the power plant is a focus of urban development, important maintenance and repair work is carried out, official vehicles for the local office of the interior and special equipment (such as drug testing laboratories, for example) are purchased and help given towards the holding of sporting or educational activities. In 2007 a little over 3.8 million rubles was made available for such purposes.

In 2007 OGK-4 decided to depart from its established practice of social investment and formulate a unified policy for this area. The result is to be a Corporate Responsibility Policy that is uniform across all parts of the Company. This effort was born of OGK-4's endeavor to systematize its social expenditures and the need for them to be effective for both the Company and the regions in which it operates. Work on the Policy will proceed in continuing association with the main interested parties: the shareholders, government bodies, employees, and expert organizations. It is planned that the document should be formally adopted in summer 2008.



# 2,170 million rubles

OGK-4's profits from electricity  
sold on the free market, amounting  
to 67% of the Company's total  
profits from electricity sales

# The future of energy in Russia. Our prospects

We stand on the threshold of great changes. Only ten years ago the Russian electricity industry was in crisis — not only was generating capacity no longer being replaced, but the existing Russian energy companies had fallen behind their foreign peers on many indicators. The main problem with the Russian electricity system was the absence of incentives to increase efficiency or invest in development, or, in consequence, increase reliability of supply. This vital problem was addressed by RAO UES of Russia, which started to tackle it. In 2000 it launched a program of electricity industry reform and gradual liberalization of the market. In the seven years since then, the sector has got into shape to attract investment, create the legal basis and infrastructure for market competition, and reliability of supply has increased for the whole country. In 2006–2007 the first IPOs in the electricity sector were held and by 2011 we have in store the final deregulation of the market for electricity.

Today OGK-4 can pride itself that it is one of the pioneers and main participants in an emerging market and that we have the strength and the opportunity to have a say in increasing the nation's energy security and making the most of Russia's energy potential.

It is largely thanks to RAO UES of Russia and its well thought-out and effective strategy that we have been able to get a powerful strategic shareholder and raise substantial

financing for the implementation of our investment program. In 2007 the Company welcomed E.ON as a new shareholder, one that had expressed a firm intention to pursue plans to increase OGK-4's installed generating capacity. We may be sure: by employing advanced management and technology solutions from the leader in world energy business, we will be able to exploit to the fullest the growth opportunities which present themselves to the Company.

Today a large-scale construction of new electricity generating capacity is underway. The Russian Ministry of Industry and Energy forecasts that over 41 GW of new generating capacity will come on stream by 2012 in order to meet an anticipated demand for electricity. In the coming years it is expected that the fuel market will be deregulated, which will make new opportunities for energy companies to make efficiency improvements. Now the Russian Government is working on a long-term development strategy for the fuel and energy complex, proceeding from the objective necessity to reduce its share of the Russian economy by introducing innovative technology. OGK-4 is already in possession of the necessary resources. We can see that in ten or twenty years' time the tone of the electricity market will be set by powerful, successful, modern companies. OGK-4 has every chance to be one of them.



# Audit report on Statutory financial (accounting) reports 2007

Following is the auditor's report by ZAO PricewaterhouseCoopers Audit on the results of their audit of the statutory financial (accounting) statements of JSC OGK-4 for 2007. The statutory financial (accounting) statements are not fully included in this Annual Report. This auditor's report applies only to the full statutory financial (accounting) statements of JSC OGK-4 for 2007. Copy of the full statutory financial (accounting) statements of JSC OGK-4 for 2007 is available on the Company's website [www.ogk-4.ru](http://www.ogk-4.ru) in the section «Business and Investments — Economics and Finances — Financial Statements according to RAS».

## [Translation from Russian original]

### AUDIT REPORT

#### on Statutory financial (accounting) reports

#### To the shareholders of JSC "OGK-4"

#### Auditor

ZAO PricewaterhouseCoopers Audit

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

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

Audit license № E000376 issued by the Ministry of Finance of the Russian Federation on 20 May 2002. The license is valid until 20 May 2012.

Member of the Institute of Professional Accountants and Auditors of Russia and of the Audit Chamber of Russia

#### Client

JSC "OGK-4"

Energostroiteley str., bld. 23

Tumen region, Khanty-Mansiyskiy autonomous national area – Yugra,

Russian Federation, 628406

State registration # 1058602056985 dated April 26, 2007.

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**TRANSLATOR'S EXPLANATORY NOTE:** The above translation of the auditor's report is provided as a free translation from Russian, which is the official and binding version. This English translation does not contain the English translation of the explanatory notes, which is included in the official Russian version of the auditor's report.



**AUDIT REPORT  
on Statutory financial (accounting) reports of JSC "OGK-4"**

To the shareholders of JSC "OGK-4"

1. We have audited the attached Statutory financial (accounting) reports of JSC "OGK-4" for the period from 1 January up to 31 December 2007. Statutory financial (accounting) reports of JSC "OGK-4" consist of Balance Sheet, Profit and Loss Account, Flow of Equity and Funds Report, Cash Flow Statement, Supplement to the Balance Sheet, Explanatory Notes (hereinafter all the reports together are called "Statutory financial (accounting) reports"). The Statutory financial (accounting) reports were prepared by the management of JSC "OGK-4" in accordance with the legislation of Russian Federation applicable to Statutory financial (accounting) reports. Such Statutory financial (accounting) reports differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.
2. Preparation of the Statutory financial (accounting) reports is the responsibility of management of JSC "OGK-4". Our responsibility as auditors is to express our opinion in all material respects on these Statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation based on our audit.
3. We conducted our audit in accordance with The Federal Law "On auditing activity", Federal Auditing Standards, International Standards on Auditing and our internal standards.  
Our audit was planned and performed to obtain reasonable assurance about whether the Statutory financial (accounting) reports are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statutory financial (accounting) reports, assessing compliance with accounting principles, techniques and rules of Statutory financial (accounting) reports preparation, evaluating significant estimates made by the management of JSC "OGK-4" and the overall Statutory financial (accounting) reports presentation. We believe that our audit provides a reasonable basis for our opinion on these Statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation.
4. In our opinion, the Statutory financial (accounting) reports of JSC "OGK-4" attached to this report have been properly prepared to present, in all material respects, the financial position of JSC "OGK-4" as at 31 December 2007 and financial results of its operations for the period from 1 January up to 31 December 2007 in accordance with the legislation of Russian Federation applicable for Statutory financial (accounting) reports.

27 February 2008

Director of ZAO

D. Gray

Statutory auditor

E.N. Belousova

Certificate No K 015832  
for general audit  
termless

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**TRANSLATOR'S EXPLANATORY NOTE:** The above translation of the auditor's report is provided as a free translation from Russian, which is the official and binding version. This English translation does not contain the English translation of the explanatory notes, which is included in the official Russian version of the auditor's report.

# Financial (accounting) statements

## BALANCE SHEET as at 31 December 2007 (thousands of RR)

Assets	Line code	At beginning of reporting year	At end of reporting period
<b>I. NON-CURRENT ASSETS</b>			
Fixed assets	120	16,406,472	15,950,466
Construction in progress	130	1,126,977	1,733,935
Long-term financial investments	140	33,757	32,144
Deferred tax asset	145	63,317	80,986
Other non-current assets	150	153,145	459,610
<b>Total Section I</b>	<b>190</b>	<b>17,783,668</b>	<b>18,257,141</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	1,799,150	2,087,481
including:			
Raw, materials and other inventories	211	1,735,259	2,013,534
Finished goods and goods for resale	214	775	596
Expenses related to future periods	216	63,116	73,351
Value Added Tax on goods purchased	220	25,229	14,652
Accounts receivable (payment expected beyond 12 months of the reporting date)	230	8,703	7,763,754
including:			
buyers and customers	231	3,879	2,079
Accounts receivable (payment expected within 12 months of the reporting date)	240	1,500,294	1,491,950
including:			
buyers and customers	241	483,261	452,856
Short-term investments	250	600,000	35,808,572
Cash	260	778,079	4,088,840
Other current assets	270	—	1,250
<b>Total Section II</b>	<b>290</b>	<b>4,711,455</b>	<b>51,256,499</b>
<b>TOTAL SECTIONS I and II</b>	<b>300</b>	<b>22,495,123</b>	<b>69,513,640</b>

Equity and liabilities	Line code	At beginning of reporting year	At end of reporting period
<b>III. EQUITY AND RESERVES</b>			
Charter capital	410	49,130,626	25,206,846
Additional capital	420	531,489	41,471,734
Legal reserve	430	75,884	101,596
including:			
Reserves formed in accordance with legislation	431	75,884	101,596
Retained earnings (loss)	470	(30,060,116)	560,411
<b>Total Section III</b>	<b>490</b>	<b>19,677,883</b>	<b>67,340,587</b>
<b>IV. NON-CURRENT LIABILITIES</b>			
Borrowings and bank loans	510	30,438	—
Deferred tax liabilities	515	315,909	383,072
Other non-current liabilities	520	1,125	992
<b>Total Section IV</b>	<b>590</b>	<b>347,472</b>	<b>384,064</b>
<b>V. CURRENT LIABILITIES</b>			
Borrowings and bank loans	610	600,705	250,230
Accounts payable	620	1,661,764	1,527,332
including:			
Payable to suppliers and contractors	621	1,270,094	1,054,315
Payable to staff	622	79,400	69,284
Payable to state non-budget funds	623	30,566	22,337
Taxes payable	624	187,307	272,215
Other creditors	625	94,397	109,181
Payable to participants (shareholders)	630	204,853	11,219
Income of future periods	640	2,446	208
<b>Total Section V</b>	<b>690</b>	<b>2,469,768</b>	<b>1,788,989</b>
<b>TOTAL SECTIONS III, IV, V</b>	<b>700</b>	<b>22,495,123</b>	<b>69,513,640</b>

## REFERENCE ON ITEMS ACCOUNTED ON OFF-BALANCE SHEET ACCOUNTS

Narrative	Line code	At beginning of reporting year	At end of reporting period
Rented fixed assets	910	32,788	20,391
thereof by leasing	911	18,187	2,071
Working and fixed assets received for storing	920	224	267
Bad debts of insolvent debtors written off to losses	940	427,707	368,011
Securities of liabilities and payments received	950	214	1,027,147
Securities of liabilities and payments issued	960	—	6,637,100
Housing stock depreciation	970	2,701	2,946

Chief Executive Officer  
Chief Accountant  
27 February 2008



Kitashev Andrey Vladimirovich  
Chiruhin Vladimir Sergeevich

## PROFIT AND LOSS ACCOUNT for 2007 (thousands of RR)

Narrative	Line code	For reporting period	For the same period of the previous year
Income from and expenses on ordinary activities			
Sales of goods, products, work, services (less VAT, excise duty and other similar compulsory payments)	010	31,460,784	13,742,870
Cost of goods, products, work, services sold	020	(28,366,029)	(12,778,896)
Total revenue (loss)	029	3,094,755	963,974
Sales expenses	030	—	(4,329)
Gross profit (loss) from sales	050	3,094,755	959,645
Other income and expenses			
Interest receivable	060	622,726	44,651
Interest payable	070	(41,555)	(25,324)
Participation in other companies	080	—	1,727
Other income	090	761,567	1,469,039
Other expenses	100	(1,914,050)	(1,734,856)
Income (loss) from operations	140	2,523,443	714,882
Deferred tax assets	141	18,379	9,072
Deferred tax liabilities	142	(67,766)	(28,261)
Current income tax	150	(985,524)	(180,832)
Other analogous payments	151	(1,929)	(615)
Tax sanction	180	2,207	—
<b>Net profit (loss) for the reporting year</b>	<b>190</b>	<b>1,488,810</b>	<b>514,246</b>
REFERENCE.			
Permanent tax liabilities (assets)	200	439,627	29,765
Basic earnings (loss) per share	201	0.0289	0.0179

## BREAKDOWN OF SPECIFIC INCOMES AND EXPENSES

Narrative	Line code	For reporting period		For the similar period of the previous year	
		income	expense	income	expense
Fines and penalties recognized by court or those on which there are judgments of a court (or arbitrage court) on their recovery	210	102,512	42,309	4,367	18,367
Profit (loss) of previous years	220	24,543	14,924	1,314	712
Exchange rate differences	240	128,059	42,906	13,149	1
Revaluation reserve	250	X	182,511	X	289,570
Write-off of debtor and creditor indebtedness on which the period of limitation has expired	260	32	2,617	1,325	195

Chief Executive Officer  
Chief Accountant  
27 February 2008



Kitashev Andrey Vladimirovich  
Chiruhin Vladimir Sergeevich



## FLOW OF EQUITY AND FUNDS for 2007 (thousands of RR)

### I. Changes in equity

Narrative	code	Charter capital	Additional capital	Reserve capital	Accumulated profit/loss	Total
Balance as of 31 December of the year antecedent to the previous year	010	8,210,831	—	—	104,626	8,315,457
Balance as of 1 January of the previous year	030	8,210,831	—	—	104,626	8,315,457
Net profit (loss)	032	X	X	X	514,246	514,246
Dividends	033	X	X	X	(92,208)	(92,208)
Allocations to reserves	040	X	X	5,231	(5,231)	—
Increase of capital due to reorganization of legal entity	054	40,919,795	534,692	70,653	—	41,525,140
Other	055	—	—	—	3,203	3,203
Decrease of capital due to reorganization of legal entity	063	—	—	—	(30,584,714)	(30,584,714)
Other	064	—	(3,203)	—	—	(3,203)
Balance as of 31 December of the previous year	070	49,130,626	531,489	75,884	(30,060,078)	19,677,921
2007 current year						
changes in accounting policy	071	X	X	X	(38)	(38)
Balance as of 1 January of the current year	100	49,130,626	531,489	75,884	(30,060,116)	19,677,883
Net profit	102	X	X	X	1,488,810	1,488,810
Dividends	103	X	X	X	(350,012)	(350,012)
Contributions to legal reserves	110	X	X	25,712	(25,712)	—
Increase of capital due to additional shares issue	121	5,554,596	40,969,310	X	X	46,523,906
Decrease of capital due to decrease in value of shares	131	(29,478,376)	X	X	29,478,376	—
Other	134	—	(29,065)	—	29,065	—
Balance as of 31 December of the current year	140	25,206,846	41,471,734	101,596	560,411	67,340,587

**II. Reserves**

Narrative	Line code	Balance b/f	Additions	Disposals	Balance
Legal reserves formed in accordance with legislation					
previous year	161	—	75,884	—	75,884
current year	162	75,884	25,712	—	101,596
Provisions					
previous year	171	—	530,081	(240,511)	289,570
current year	172	289,570	182,511	(289,570)	182,511

**REFERENCES**

Narrative	Line code	At beginning of reporting year	At the end of reporting period
1) Net assets	200	19,680,329	67,339,545

Chief Executive Officer  
Chief Accountant  
27 February 2008



Kitashev Andrey Vladimirovich  
Chiruhin Vladimir Sergeevich

## CASH FLOW STATEMENT for 2007 (thousands of RR)

Narrative	Code	For the current year	For the same period of the previous year
Cash at the beginning of the reporting year	010	778,059	27,206
Cash movement – operating activity			
Total cash received from customers and clients	020	37,544,607	16,245,626
Other income	110	8,413,449	174,425
Total cash used for:	120	(45,729,263)	(16,368,995)
payments for purchased goods, work, services, materials and other current assets	150	(30,438,952)	(13,400,457)
wages and salaries payments	160	(2,041,244)	(981,448)
dividend paid, interest paid	170	(697,873)	(300,944)
settlements of taxes and duties	180	(3,009,171)	(1,321,938)
other payments	190	(9,542,023)	(364,208)
Net cash from operating activity	200	228,793	51,056
Cash movement – investing activity			
Sales of fixed assets and other non-current assets	210	26,592	21,892
Sales of securities and other financial investments	220	142,589,805	2,495,029
Dividend received	230	—	70,880
Interest received	240	540,448	47,305
Acquisition of fixed assets, income-bearing investments in tangible and intangible assets	290	(8,671,051)	(597,151)
Acquisition of securities and other financial investments	300	(177,543,959)	(1,330,502)
Net cash from investing activity	340	(43,058,165)	707,453

Cash movement – financing activity			
Proceeds from issue of shares and other equity instruments	350	46,523,988	—
Loans and credits received	360	6,913,224	1,532,000
Repayment of loans and credits (without interest)	390	(7,293,662)	(1,524,248)
Repayment of financial lease obligations	400	(4,096)	(15,408)
Net cash from financing activity	430	46,139,454	(7,656)
Net increase (decrease) in cash and cash equivalents	440	3,310,082	750,853
Cash at the end of the reporting year	450	4,088,141	778,059
Ruble exchange rate difference	460	—	—

Chief Executive Officer  
Chief Accountant  
27 February 2008



Kitashev Andrey Vladimirovich  
Chiruhin Vladimir Sergeevich

## SUPPLEMENT TO THE BALANCE SHEET for 2007 (thousands of RR)

### FIXED ASSETS

Narrative	code	At beginning of reporting year	Additions	Disposals	At end of reporting period
Buildings	070	6,328,327	79,062	(61,262)	6,346,127
Constructions and transfer mechanisms	075	5,938,947	50,482	(6,659)	5,982,770
Machinery and equipment	080	4,458,718	425,458	(10,679)	4,873,497
Means of transportation	085	81,234	119,691	(2,825)	198,100
Production and work appliances	090	28,676	19,810	(184)	48,302
Working livestock	095	12	—	—	12
Other types of fixed assets	110	1,857	256	(19)	2,094
<b>Total</b>	<b>130</b>	<b>16,837,771</b>	<b>694,759</b>	<b>(81,628)</b>	<b>17,450,902</b>

Narrative	Code	At beginning of reporting year	At end of reporting period
Depreciation of fixed assets — total	140	431,299	1,500,436
including:			
buildings and constructions	141	143,089	532,821
machinery, equipment, means of transportation	142	283,862	929,604
other	143	4,348	38,011
Fixed assets leased out — total	150	148,173	112,502
including:			
buildings	151	118,811	93,156
constructions	152	8,231	16,766
Other	153	21,131	2,580
Fixed assets transferred to conservation	155	34,616	6,273
Fixed assets leased in — total	160	32,788	20,391
including:			
buildings and constructions	161	—	3,719
machinery, equipment, means of transportation	162	16,672	16,672
Other	163	16,116	—

	Code	At beginning of reporting year	At end of reporting period
Changes in fixed assets value as a result of fitting-out, rigging up, reconstruction, partial liquidation	180	140,662	304,003

**RESEARCH AND DEVELOPMENT COSTS**

Narrative	code	At beginning of reporting year	Additions	Disposals	At end of reporting period
Total Research and Development costs	310	1,050	—	(1,050)	—
including:					
R&D	311	1,050	—	(1,050)	—
	312	—	—	—	—

**FINANCIAL INVESTMENTS**

Narrative	code	Long-term		Short-term	
		at beginning of reporting year	at end of reporting period	at beginning of reporting year	at end of reporting period
Investments in share capital of other entities — total	510	33,757	32,144	—	—
including subsidiaries	511	33,721	32,108	—	—
Securities of other entities	520	—	—	—	265,292
including debt securities (debentures, promissory notes)	521	—	—	—	265,292
Deposits	530	—	—	600,000	35,543,280
<b>Total</b>	<b>540</b>	<b>33,757</b>	<b>32,144</b>	<b>600,000</b>	<b>35,808,572</b>



## ACCOUNT RECEIVABLE AND ACCOUNTS PAYABLE

Narrative	Code	At beginning of reporting year	At end of reporting period
Accounts receivable:			
Short-Term	610	1,500,294	1,491,950
including:			
receivables from customers and clients	611	483,261	452,856
advances given	612	553,644	775,779
other	613	463,389	263,315
Long-Term	620	8,703	7,763,754
including:			
receivables from customers and clients	621	3,879	2,079
advances given	622	—	7,758,583
other	623	4,824	3,092
<b>Total</b>	<b>630</b>	<b>1,508,997</b>	<b>9,255,704</b>
Accounts payable			
Short-Term	640	2,262,469	1,777,562
including:			
payables to suppliers and contractors	641	1,270,094	1,054,315
advances received	642	29,627	26,700
tax and duties payments	643	187,307	272,215
credits	644	600,705	250,230
other	646	174,736	174,102
Long-Term	650	31,563	992
including:			
loans	652	30,438	—
payables to suppliers and contractors	653	1,125	992
<b>Total</b>	<b>660</b>	<b>2,294,032</b>	<b>1,778,554</b>

**EXPENSES INCURRED IN ORDINARY (BY COST NATURE)**

Narrative	Code	For reporting year	For previous year
Materials	710	22,742,297	8,663,355
Wages and salaries expenses	720	2,319,407	1,118,645
Obligatory social payments	730	395,743	218,086
Fixed assets depreciation	740	1,062,500	421,103
Other expenses	750	1,846,082	2,362,036
Total by expense type	760	28,366,029	12,783,225
Changes in the balance (increase [+], decrease,[-]):			
Expenses of future periods	766	10,235	62,692

**COLLATERAL**

Narrative	Code	At beginning of reporting year	At end of reporting period
Received	810	214	1,027,147
Issued	830	—	6,637,100

Chief Executive Officer  
Chief Accountant  
27 February 2008



Kitashev Andrey Vladimirovich  
Chiruhin Vladimir Sergeevich

# CONCLUSION

Moscow

01.04.2008

The Audit Committee of the Company that was elected by the Extraordinary General Shareholders meeting of JSC OGK-4 (Minutes dated 21.12.2007) in accordance with Article 85, 87 of the Federal Law On joint-stock companies acting on the basis of the Company Charter and Provisions on the Audit Committee including:

Michael Winfried Christian Wilhelm — Chairman of the Audit Committee;  
Andreas Kolpatzik — Member of the Audit Committee;  
Mario Dietmar Mazidowski — Member of the Audit Committee;  
Elena Smirnova — Member of the Audit Committee;  
Stanislav Patrikeev — Secretary of the Audit Committee;  
has audited JSC OGK-4 Financial and Economic Activities as per the results of 2007.

The persons responsible for Financial and Economic Activities in the audited period were as follows:  
General Director of JSC OGK-4 — A.V. Kitashev (from 04.03.2005)  
Chief Accountant of JSC OGK-4 — V.S. Chirukhin (from 02.10.2006)

The audit was carried out in the period from 03.03.2008 till 24.03.2008 in accordance with the resolution of the Audit Committee (Minutes No.1 dated 28.02.2008) as per the Program approved by the Audit Committee.

The audit was carried out by random method on consent and with participation of the officers responsible for Financial and economic activities of JSC OGK-4 involving the specialists of the Company Headquarters.

The audit revealed the following.

Total amount of proceeds from sale of goods, works and services in 2007 equals to 31,461 mln rubles, including proceeds from electric power that is 30,657 mln rubles, and from heat that is 0.549 mln rubles. Production cost amounts to 28,366 mln rubles including production cost of electric power that is 27,493 mln rubles, production cost of heat that is 0.596 mln rubles.

Profit from sales amounts to 3,095 mln rubles.

Other proceeds amount to 761 mln rubles.

Other expenditure amounts to 1,914 mln rubles.

Net profit of the Company amounts to 1,489 mln rubles.

Indicators of financial standing of a joint-stock company are represented by financial ratios that are calculated on the accounting data (balance sheet Form 1, income statement Form 2).

		Norm	Ratio as of 01.01.07	Ratio as of 31.12.07
Absolute liquidity ratio	K1	0.2-0.5	1	1
Quick assets ratio	K2	0.3-0.7	2	2
Current liquidity ratio	K3	$\geq 2$	1.5	2
Financial independence ratio	K4	$\geq 0.5$	5	5
Return on sales	K5	$> 0$	0.75	0.75
Return on equity	K6	$> 0$	0.75	0.75
Return on assets	K7	$> 0$	1	1
Accounts receivable dynamics	K8	$< 0$	0.25	0.25
Accounts payable dynamics	K9	$< 0$	0.25	0.75
AR/AP ratio	K10	$> 1$	0.5	0.75
Final rating:			13 (B1)	14.25 (A2)

The final rating of the Company as of 31.12.2007 is 14.25. According to the rating criteria JSC OGK-4 can be attributed to a group of companies with a steady financial standing (A2).

Accounts receivable as of 01.01.07 amount to 1,509 mln rubles. As of 31.12.07 accounts receivable amount to 9,256 mln rubles including the accounts receivable in the period of more than 12 months to the amount of 7,764 mln rubles.

Accounts receivable within 12 months after the accounting date amount to 1,492 mln rubles including the Customers and Purchasers: 453 mln rubles.

Upon the results of the inventory check the reserve on doubtful debts in the amount of 182.5 mln rubles for all overdue accounts receivable was identified. However, no measures are taken to claim accounts receivable of JSC Nurenergo (as of 31.12.2007 amount to 109 mln rubles).

Accounts receivable were written off as uncollectible in the amount of 2.65 million rubles.

Accounts payable as of January 1, 2007 amount to 1,662.8 million rubles and 1,527 million rubles as of December 31, 2007. Some delays in submission of documents on the services rendered and products received to the accounting office took place at Shaturskaya GRES.

As of December 31, 2007, the total value of promissory notes received amounted to 265.292 million rubles. The promissory notes were received to settle the overdue accounts receivable. Compensation for using other person's monetary funds was not included into the amount of the promissory notes received. The promissory notes were received at the nominal value corresponding to the amount of the overdue accounts receivable.

The performance of investment programs is presented in the table below:

Name of works	2007			
	Capital investments		Funding	
	Planned	Actual	Planned	Actual
Investment program, total	1,590,972	1,531,341	8,381,309	9,497,513
Including large projects:	543,882	495,629	7,010,704	8,271,859
Creation of replacement capacity on the basis of CCGT-400 of Shaturskaya GRES	155,088	180,423	3,219,913	2,879,069
Creation of replacement capacity on the basis of CCGT-2x400 of Surgutskaya GRES-2	93,486	93,851	2,312,521	5,089,653
Completion of construction of the 3 <sup>rd</sup> power unit on the basis of SPU-800 of Berezovskaya GRES	282,020	208,017	1,431,152	286,750
Creation of replacement capacity on the basis of CCGT-400 of the branch Yaivinskaya GRES	13,288	13,338	47,118	16,387

The results of works under the Contract with Optima Exchange Services Company for introduction of a uniform automated system did not comply to the requirements. Failure to fulfill the plan is related to shortage of resources and the contractor's qualification. The decision to look for a new contractor was made and after it was found the old contract was terminated. The above mentioned situation is a consequence to absence of effective internal control over the project performance by IT Department. 000 GMCS was chosen as a new contractor (contract No.MS-OGK-01/OGK4/07/370 dated July 26, 2007 and contract No.OGK4/07/489 dated October 4, 2007). At the present moment the management accounting on realization of the project is not carried out systematically, and data on the realization process are collected only upon request of the managers.

1,642 regulated procurement procedures were held in 2007 for the needs of OGK-4 Branches and Headquarters to the total sum of 49,804,145.02 thousand rubles (hereinafter all the sums are given exclusive of VAT) without fuel.

The following facts were revealed on analysis of regulated purchases in 2007:

- incompliance with the time-limits of tender procedures;
- the Provision On regulated purchase of goods, works, and services for OGK-4 stipulates that the regulation of procurement shall be carried out by compliance with obligatory procedures including market analysis. Purchases without the required analysis of the market prices for the purchased products were made, which violated the Provision;
- purchase of goods, works and services at overprice were revealed;
- choice of non optimal counterparties were made;
- in the process of purchase tenders realization in the price bidding form at Surgutskaya GRES-2 Branch, a clause of 30% advance payment is included into the requests forwarded to companies that leads to funds withdrawal from turnover;
- in the process of purchase tenders realization, terms of implementation of agreements are unreasonably worsened in final documents and concluded agreement. Term of supply is unreasonably set depending on the date of transfer of the advance or upfront payment.

Fixed assets in the amount of 32.8 million rubles were accounted on off-balance accounts of OGK-4 as of January 1, 2007. The specified sum amounted to the cost of leased fixed assets in accordance with agreements of 22.06.05. No Л 16/2005/ОГК4/66, Л 17/2005/ОГК4/66, Л 18/2005/ОГК4/66, Л 19/2005/ОПС4/66, Л 20/2005/ОГК4/66. Upon terms and conditions of the above mentioned agreement, ZAO Gala Product provided computer equipment, furniture, office equipment for financial leasing. The term of leasing is from 13 to 21 months.

Leasing rate is 13.3 percent per annum or 5 million rubles in average for the whole period of leasing agreements.

As of December 31, 2007, the amount of leased fixed assets on off-balance accounts equals to 20.4 million rubles.

Securities of obligations and payments received in the amount of 1,027 million rubles are accounted on the off-balance account. Securities of obligations and payments issued in the amount of 6,637 million rubles.

Contractual activity in OGK-4 is carried out in compliance with the Instruction On Procedure of Conclusion, Accounting, Execution and Storage of Contracts in OGK-4 approved by order of OGK-4 No.231 of August 10, 2006.

The analysis of implementation of the Instruction in OGK-4 showed that item 4.8 of the Instruction is violated and a number of clauses of the Instruction are unrealizable. Some cases of absence of the Curators' control over the contracts execution were identified. The instruction On Procedure of Conclusion, Accounting, Execution and Storage of Contracts in OGK-4 does not specify any mechanism to influence the Curators who do not fulfill their liabilities.

Some essential failures in claim handling activities were identified.

On the basis of realized audit and taking into account the opinion of the Company's auditor (ZAO Price WaterHausCoopers Audit dated 27.02.2008), the Audit Committee has substantial grounds to acknowledge the reliability of data provided in the annual report of the Company and in the annual financial statements. No significant violations of the RF legislation were identified.

Chairman of the Audit Committee

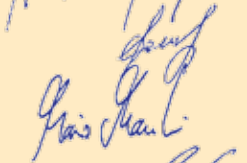


**Michael Winfrid Christian Wilhelm**

Members of the Audit Committee



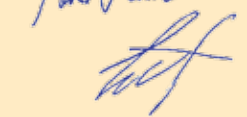
**Andreas Kolpatzik**



**Elena Smirnova**



**Mario Dietmar Mazidowski**



**Stanislav Patrikeev**



# Information for shareholders and investors

## Contacts

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## Investor and shareholder relations

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## Registrar

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## Auditor

**Full name:** Closed Joint Stock Company  
"PriceWaterhouseCoopers Audit"

Licence No. E 000376, issued May 20, 2002 by the Russian Federation Ministry of Finance

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