



CORPORATE STABILITY
AND SOCIAL RESPONSIBILITY

JSC «THE SECOND GENERATING COMPANY
OF ELECTRIC ENERGY WHOLESALE MARKET»

2006



COMPANY PROFILE

JSC "OGK-2" is one of the thermal wholesale generation companies created as part of the reform of the Russian electric power industry aimed at creating a liberal electricity market.

JSC "OGK-2" was incorporated on March 9, 2005. It completed its organizational configuration as an integrated company on September 29, 2006. By decision of the government of the Russian Federation JSC "OGK-2" incorporated five power plants (the Pskov GRES, Serov GRES, Stavropol GRES, Surgut GRES-1 and Troitsk GRES) located in the Urals, Northwestern and Southern districts of the of the Russian Federation.

JSC "OGK-2" was the third largest and second largest company in Russia in terms of installed capacity and electricity generation in 2006. The total installed electricity generating capacity of JSC "OGK-2" is 8 695 MW, or about 6% of the total installed thermal generating capacity in Russia.

The fuel balance of JSC "OGK-2" is stable and composed of gas and coal which recalculated into standard fuel accounted for 74.6% and 23.5% of the total amount of fuel used in 2006, respectively. Two power plants of the Company also use minor amounts of fuel oil as start-up and back-up fuel.

In 2006 the shares of JSC "OGK-2" started to circulate on the Russian stock exchanges; the Moscow Interbank Currency Exchange and the Russian Trading System. By the end of 2006 the market capitalization of JSC "OGK-2" had grown from USD1.85 to 3.63 billion, while the value of 1 kW of installed capacity had reached USD417 per kW.

CORPORATE SOCIAL RESPONSIBILITY

JSC "OGK-2" shares the values of sustainable development. We believe that entrepreneurial objectives and Corporate Social Responsibility (CSR) complement each other and perceive CSR as a sum total of the Company's obligations before the interested parties assumed voluntarily over and above those required by law and fulfilled publically as part of collaboration with the interested parties.

The Company's impact on the economy, society and the environment and the regions where it is present is varied. We assume the responsibility for efficiently managing that impact and accounting for the interests of shareholders and various interested parties inclusive of the responsibility for making technologically verified, economically justified and environmentally safe decisions that yield a maximum effect.

The Company's activities related to CSR are a condition for the successful implementation of its strategy; accounting for the interests of the stakeholders assures its stability and enables it to pursue a realistic development plan.



THE ROLE OF JSC "OGK-2" IN RUSSIA'S SUSTAINABLE DEVELOPMENT

JSC "OGK-2" PLAYS A SIGNIFICANT PART IN THE ECONOMY AND SOCIAL DEVELOPMENT OF THE REGIONS WHERE IT OPERATES AND THE NATION AS A WHOLE ACTING AS:	OUR GOALS ARE:
<p>A SUPPLIER OF VITAL SERVICES:</p> <ul style="list-style-type: none"> In 2006 JSC "OGK-2" generated 48 084 million kW-h of electricity, or 4.9% of the total electricity output of Russia, and supplied 2 523 thousand Gcal of heat. In 2006 the company created direct economic value worth 25 250.0 million rubles. 	<ul style="list-style-type: none"> Reliable, safe and uninterrupted production of electricity and heat; Competitive pricing of our products; Efficient equipment operation and maintenance; Accounting for the user requirements for product quality; Selling heat under the condition of tariff regulation on a loss-free basis.
<p>A RESPONSIBLE EMPLOYER IN THE REGIONS WHERE IT OPERATES:</p> <ul style="list-style-type: none"> Total number of employees - 4 842. Total wages and social benefits paid in 2006: 2 084.1 million rubles. Total investment in labor safety and in raising workplace safety standards in 2006: 41. 24 million rubles. 	<ul style="list-style-type: none"> Competitive pay and conditions for professional and career growth of company employees; Unconditionally fulfilling collective bargain agreements concluded involving trade-unions; Raising labor safety.
<p>A MAJOR BUYER OF GOODS AND SERVICES:</p> <ul style="list-style-type: none"> In 2006 the Company purchased goods and services worth 4 998.99 million rubles (not counting fuel purchases), and also purchased fuel worth 17 596.94 million rubles. 	<ul style="list-style-type: none"> Organizing transparent and competitive procurement procedures; Maximizing the scope of open procurements (involving an unlimited number of participants).
<p>A MAJOR TAX-PAYER:</p> <ul style="list-style-type: none"> In 2006 JSC "OGK-2" (as well as the plants (JSCs) which became Company affiliates on 29.09.2006) paid a total of 2 420 million rubles to budgets of all levels, inclusive of 1349 million rubles to the federal budget and 1072 million rubles to the regional budgets. No significant penalties or nonfinancial sanctions were instituted against the Company in 2006. 	<ul style="list-style-type: none"> Strict compliance with tax laws.

JSC "OGK-2" PLAYS A SIGNIFICANT PART IN THE ECONOMY AND SOCIAL DEVELOPMENT OF THE REGIONS WHERE IT OPERATES AND THE NATION AS A WHOLE ACTING AS:

OUR GOALS ARE:

A STOCK MARKET PLAYER:

- The market capitalization of the Company amounted to USD3.63 billion at the end of 2006.
- In 2006 the Company paid 139.2 million rubles worth of dividends to the shareholders.

- Bringing our Company shares into free circulation on international stock exchanges;
- Continuously improving informational transparency of the Company;
- Introducing up-to-date international corporate management standards.

A COMPANY AWARE OF ITS ENVIRONMENTAL RESPONSIBILITY:

In 2006 total emission of pollutants amounted to:

- NOx (converted to NO2): 43282 tons;
- SO2: 87943 tons;
- CO: 48370 tons;
- Solid fuel ash: 167869 tons;
- Other emissions: 3112 tons.

Greenhouse gases (converted to CO2)

in 1990 :

- Total amount: 41427.4 thousand tons;
- Specific volume: 0.71 kg/kWh.

in 2006 :

- Total amount: 30383.5 thousand tons;
- Specific volume: 0.68 kg/kWh.

- Maintaining reliable and environmentally safe production standards, adopting a comprehensive approach to using natural resources;
- Collaborating on a regular basis with non-governmental environmental organizations to improve the environmental policy of the Company.
- Conducting regular monitoring of greenhouse gas emissions;
- Gearing the technological policy of the Company toward using equipment that minimizes greenhouse gas emissions.

A COMPANY STRIVING TO INVEST IN THE DEVELOPMENT OF LOCAL COMMUNITIES

In 2006 the Company extended 3.65 million rubles worth of charity assistance to the regions where it operates.

- Participating in the maintenance of the infrastructure of the regions where it operates;
- Turning social expenditures into social investments in the development of the regions where the Company operates and local communities.

MAIN ACHIEVEMENTS IN 2006

- In 2006 JSC "OGK-2" emerged as a full-fledged electric generation company; it formed a team of managers and an organizational managerial structure, endorsed a development strategy, introduced a corporate management system by developing the required scope of corporate standards, policies and regulations, implemented a key performance index (KPI) system of management performance rating, concluded long-term collective agreements and developed a program for non-state pension support for JSC "OGK-2" employees.
- In 2006 the Company ensured reliable and uninterrupted operation of the equipment. There were no accidents, fires fatalities or accidents involving groups of employees in either 2005 or 2006. Technological malfunctions did not lead to injuries or damage to the principal equipment.
- In 2006 the «Program for Implementing the Environmental Policy» of JSC "OGK-2" for 2006-2008 took first place in the nomination "The Best Environmental Policy of the Holding RAO UES Russia.

CHALLENGES AND PROPOSED SOLUTIONS

<p>TIMELY FULL-SCOPE IMPLEMENTATION TO PROPER QUALITY STANDARDS OF INVESTMENT PROJECTS OF JSC "OGK-2" AND SUBSTANTIAL CONTRIBUTIONS TO THE DEVELOPMENT OF THE REGIONS WHERE IT OPERATES</p>	<p>JSC "OGK-2" strives to replace outdated production capacity by decommissioning the least economical and reliable equipment that has outlived its life span and therefore consumes excess fuel and emits more pollutants.</p> <p>The idea is to replacing the coal-fired equipment. The choice of the equipment to replace it is consistent with the Concept of the technological Policy of RAO UES of Russia and the Regulation on the Technological Policy of JSC "OGK-2".</p> <p>Investment projects for building new capacities:</p> <p>TROITSK SDPP</p> <ul style="list-style-type: none"> • 2010 – PSU-660 MW • 2011 – PSU-660 MW <p>STAVROPOL SDPP</p> <ul style="list-style-type: none"> • 2010 – PGU-400 MW • 2012 – PGU-400 MW <p>SEROV SDPP</p> <ul style="list-style-type: none"> • 2010 – PSU-330 MW • 2011 – PSU-330 MW <p>As a result of implementing the investment program the Company is planning to reduce the expenditure of fuel and increase the reliability and flexibility of production processes and also to extend the service life of the existing generating capacities.</p> <p>Beside the Company is planning to attain the following effects for the regions where it operates as a result of the investment program by the year 2012 (projection):</p> <ul style="list-style-type: none"> • Additional contribution to the gross regional product in the regions of presence (GRP) ~ 1530 million rubles; • Additional tax revenues to budgets of different levels ~ 1340 million rubles; • Additional jobs generated; an estimated 4300 new jobs generated during the construction phase and 370 new jobs after the commissioning of the new generating units. <p>JSC "OGK-2" will closely coordinate its plans and actions to implement investment projects with regional and local authorities in the regions of presence;</p> <p>In implementing the investment projects the Company will hold public hearings to assess the environmental impact on the regions of presence and heed the recommendations and wishes of non-governmental environmental organizations with regard to its investment activities.</p>
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<p>RAISING THE COMPANY'S SHAREHOLDER VALUE AND HOLDING AN INITIAL PUBLIC OFFERING OF SHARES</p>	<ul style="list-style-type: none"> • The Company will make preparations for the initial public offering (IPO) of shares in compliance with the requirements of Russian laws and international IPO norms; • In 2007 the Company will draft a «Package program of measures with regard to corporate social responsibility and sustainable development of JSC "OGK-2" for 2007-2009» which will cover: <ul style="list-style-type: none"> • Practical application of the corporate social responsibility of the Company; • Measures to enhance environmental safety and raise the environmental responsibility of the Company; • Holding regular discussions involving a broad range of interested parties; • Drafting annual nonfinancial reports of the Company; • Creation of a system to manage nonfinancial risks. • In 2007 the Company will introduce the practice of regular communications with a broad range of interested parties. • In 2007 the Company will start to create a system of managing nonfinancial risks. • By the end of the year 2007 the Company will have introduced schemes for providing long-term motivation of Company managers to attain the set goals in the interests of shareholders (a program of options).
<p>INTRODUCTION OF UP-TO-DATE INTERNATIONAL STANDARDS IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY, NONFINANCIAL REPORTING AND COLLABORATIONS WITH INTERESTED PARTIES</p>	<ul style="list-style-type: none"> • The company will create several venues for negotiations with interested parties such as: <ul style="list-style-type: none"> • Regional and local authorities; • Public environmental organizations; • The investment community. • The Company will create a system for identifying and managing nonfinancial risks and generating nonfinancial reporting compliant with the GRI and AA1000 standards.
<p>RAISING THE EFFICIENCY OF JSC "OGK-2" ENVIRONMENTAL IMPACT MANAGEMENT</p>	<ul style="list-style-type: none"> • The Company will create an efficient system of ecological management at all plants of JSC "OGK-2" in compliance with the international standards ISO 14001:2004; • The Company will be involved in regular ecological audits; • The Company will organize regular discussions with non-governmental environmental organizations to improve the environmental policy of JSC "OGK-2"; • The Company will draft and implement in 2008-2010 joint projects at the Troitsk and Stavropol GRESs. The projects will be funded within the framework of the financial mechanisms of the Kyoto protocol. • The Company will attach special significance to the ecological responsibility of the sub-contractors it employs and to promoting public awareness in the regions of presence about the environmental impact of the introduction of its investment projects.

THE REPORT ON CORPORATE STABILITY AND SOCIAL RESPONSIBILITY

We have written the first report on corporate stability and social responsibility of JSC "OGK-2" for 2006 based on the Guideline for Sustainable Development Reporting GRI (version). It is in compliance with the standards (G3) – «B+». In drafting the Report the Company organized discussions with interested parties based on standard of interacting with interested parties AA1000SES.

The Report is based on the awareness by JSC "OGK-2" of its corporate social responsibility, reflecting the vision of the Company as the subject of a socially responsible business and the principles by which the Company is guided in making strategic decisions. The Report describes the Company's development strategy, risks, and contributions to the socioeconomic development of the regions of presence and the personnel as well as the results of the environmental impact. The Report also discusses the investment program of the Company and its plans to take into public interests into account.

The Report describes specific corporate mechanisms assuring the quality of the Company's operation and efficient management of the impact on the economy, environment and society and social sphere of the regions of presence.

The Report includes the plans and obligations of JSC "OGK-2" in the area of corporate social responsibility and interaction with interested parties defined taking into account the interests and wishes of the interested parties.

The next nonfinancial report for the year 2007 will be published in the summer of 2008. It will cover the results of the implementation of the plans and obligations written down in the 2006 Report.

THE PUBLIC AUDIT OF THE REPORT

The Report passed through a public audit by a Stakeholders' Panel attended by representatives of the interested parties based on the AA1000AS Assurance Standard. Based on its results the assuring parties signed a Determination which was wholly included on the Report.

Among the assuring parties were Company stakeholders (local authorities in the territories where the plants are located, shareholders, investors, etc.), as well as representatives of authoritative public (non-governmental) organizations independent of the Company (ANO «NERA», the international Social and Ecological Alliance, representatives of rating agencies (Standard & Poor's) as well as consultants versed in the issues of corporate social responsibility.

With a view to promoting collaborations with interested parties and building confidence in the contents of the Report the Company assumed the following additional obligations before the assuring parties:

- To support the participation in discussions of the Stakeholders' Panel of assuring parties from regions of presence that are remote from Moscow (travel expenses, etc.);
- To assure the freedom of expression as part of discussions and hearings by inviting independent moderators to discussions and hearings;
- To provide additional information at the request of assuring parties along with Company documents that do not constitute commercial secrets.

In turn in their Determination on the results of the public audit of the Report the assuring parties gave a general assessment of the contents and the process of drafting the Report in compliance with the criteria of completeness of coverage, substantiveness of the issues discussed in the Report and the Company's responsiveness to the requests and wishes of the interested parties. Besides the assuring parties expressed in the Determination their recommendations and wishes regarding the Company's effort to improve the practice of collaborating with interested parties and drafting nonfinancial reports.

EXCERPTS FROM THE DETERMINATION ON THE RESULTS OF THE PUBLIC ASSURANCE OF THE 2006 REPORT :

JSC "OGK-2" has proposed that we assess its Report on corporate stability and social responsibility (the 2006 Report) as a whole from the perspective of the issues that are most important to us as assuring parties and also that we assess the substantiveness and completeness of the information provided on those issues. We had the opportunity to assess our own experience of collaborating with JSC "OGK-2" and give our recommendations in the area of corporate social responsibility of JSC "OGK-2" and interaction with interested parties ...

We are united in our shared positive rating of the 2006 Report of JSC "OGK-2", the specific and detailed nature of the information furnished. We are satisfied with the good management standards at JSC "OGK-2" and in particular the demonstrated ability to identify problems, set specific goals and tasks, and define plans and obligations. We are particularly satisfied with the timeliness of the 2006 Report.

It is a particular advantage of the Report that the Company applied international nonfinancial reporting standards and held preliminary discussions and public hearings of the Report as part of the public assurance of the 2006 Report involving a broad range of representatives of interested parties.

We rate highly the standard of the information furnished the more so since this is the first full report of the Company compli-

ant with the Guideline for reporting in the area of sustainable development (GRI, G3) accounting fully for the remarks made during the discussions and hearings ...

... The Company has demonstrated a readiness to engage in an open dialogue on various issues of the corporate social responsibility of JSC "OGK-2" (including the issues of the environmental impact of the Company and the issues of starting up a systematic dialogue with the interested parties in the regions of presence). We feel certain that the management of JSC "OGK-2" is aware of the outstanding issues in the area of corporate social responsibility of the Company and is making efforts to resolve them...

... This is in agreement with the desire of the management of the Company to at least be aware of the issues arising from the status of JSC "OGK-2" as a public company and the social-infrastructure role of JSC "OGK-2" in the economy and life of the regions of presence. We believe that such an assessment of the activities of energy companies must be incorporated into the nonfinancial reporting of all companies operating in the area of the social infrastructure ...

... as part of the drafting of the final version of the 2006 Report the management of JSC "OGK-2" demonstrated its intent to respond to the wishes and proposals of the interested parties and review the issues raised ...

Throughout 2007 the Company has made considerable headway in advancing collaborations with interested parties. As part of the public hearings the management of JSC "OGK-2" assured us of its readiness to «undertake real efforts this year to account for the interests of interested parties above all in the regions where the Company operates »... We hope that JSC "OGK-2" will consistently implement its obligations and plans written into the 2006 Report.

The Determination was signed by the following representatives of the interested parties:

On behalf of shareholders:

On behalf of state and local self-government authorities: **M. I. Sineok**, Head of the Administration of Troitsk in the Chelyabinsk region, **A. E. Kalachev**, Head of the township of Solnechnodolsk of the Izobilnenski district of the Stavropol region; **M. A. Sergeeva**, Head of the Administration of the township of Dedovichi in the Pskov region.

On behalf of the business community: **Brook Horowitz**, Executive Director of Russia Partnership for Responsible Business Practices (IBLF); **F. T. Prokopov**, Director of the Department



of Social Policy and Labor Relations of the Russian Union of Industrialists and Entrepreneurs; **A. A. Filatov**, Managing Director of the Association of Independent Directors, an independent member of the Board of Directors of JSC "OGK-2".

On behalf of certification and standardization institutions and rating agencies: **M. I. Liborakina**, a member of the international council of the Institute of Social and Ethnic Accountability, head of the Directorate of management of nonfinancial risks and social accountability of RAO UES of Russia; **A. S. Martynov**, Director of the "Independent Ecological Rating Agency" (NERA); **A. V. Novikov**, Director of Standard & Poor's, Russia and the CIS, head of Standard & Poor's, Moscow.

On behalf of scientific institutions: **M. I. Siparov**, lead researcher of the laboratory of power industry ecology, the M. Krzhizh-

anovski Energy Institute; **V. N. Yakimetz**, Chief Scientist of the Institute of Systems Analysis of the Russian Academy of Sciences, Professor of the Moscow Physics and Technology Institute and the State Institute of Management.

On behalf of industrial agencies and funds: **A. V. Gorkov**, General Director of the RF Energy Carbon Fund; **I. S. Kozhukovski**, General Director of CJSC «Agency for Forecasting Electric Power Industry Balance», Head of the Department of Economic policy of RAO UES of Russia.

On behalf of public environmental organizations: **A. A. Kayumov**, Director of the Ecological center "Dront"; **S. A. Shavlak**, Co-Chair of the International Social and Ecological Alliance.

FUTURE PLANS AND PRIORITIES

- By the end of 2007 the Company will draft and approve at a meeting of the JSC "OGK-2" Board of Directors a «Company Policy on issues of interacting with interested parties ».
- By the end of Q1 2008 the Company will draft and bring before the Board of Directors a draft «Package Program of measures in the area of social responsibility and sustainable development of JSC "OGK-2" for 2007-2009» to account for the following issues:
 - Practical implementation of the Company's corporate social responsibility;
 - Measures to raise environmental safety and ecological responsibility of the Company;
 - Organization of systematic discussions involving a broad range of interested parties;
 - Drafting annual nonfinancial reporting of the Company;
 - Creating a nonfinancial risk management system.
- By the end of Q1 2008 JSC "OGK-2" will correct and amend the current Strategy of JSC "OGK-2" until 2012 and subsequently bring the amended Strategy before the JSC "OGK-2" Board of Directors proceeding from the need to account for:
 - The world trends in the electric power industry and the current and emerging energy-saving technologies;
 - The ecological risks arising from the implementation of the JSC "OGK-2" Strategy until 2012 and the changes in the fuel balance of the Company.
- By the end of Q1 of 2008 the Company will draft and bring before the JSC "OGK-2" Board of Directors proposals for incorporating in the system of coefficients the indexes of management efficiency of JSC "OGK-2" and nonfinancial indicators related to corporate social responsibility and interaction with interested parties.
- By the end of Q1 of 2008 the Company will organize regular discussions with interested parties on developing and correcting the long-term ecological policy of JSC "OGK-2" and involve in the effort representatives of local and regional public and professional environmental organizations.
- By the year 2009 JSC "OGK-2" is planning to reduce the volume of specific harmful emissions for the Company as a whole to the following values:
 - NOx: 7.072 kg/standard fuel ton;
 - SO₂: 11.108 kg/standard fuel ton;
 - Solid particulates: 16.672 kg/standard fuel ton
 - Water consumption: 83.102 м³/MW.
- By the end of 2007 the Company will study the current charity best practices and technologies and review the issue of creating local community funds in the regions of presence. The interested parties will be informed about the Company's decision on the issue through its Web-site.
- The Company will continue regular discussions with interested parties over a broad range of issues and draft proposals for integrating the practice of such discussions in the system of the corporate management of the Company.
- The Company will continue to draft the annual nonfinancial report on issues of social responsibility and corporate stability in compliance with international recommendations and the GRI and AA1000 standards.
- The Company will introduce systematic identification, monitoring and management of nonfinancial risks.

CONTACT INFORMATION

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