



**JSC RusHydro**  
**Annual Financial Report**  
**2009**

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# **I. Statement of the Chairman of JSC RusHydro's Board of Directors and the Chairman of JSC RusHydro's Management Board**

Dear shareholders,

2009 was the most ambiguous and challenging year in JSC RusHydro's history. The accident at the Company's Sayano-Shushenskaya HPP marked a new starting point both for the Company and for the Russian hydro-power sector.

Our greatest loss from the accident was our colleagues. Today, we continue to mourn our deceased co-workers and we offer our wishes for a speedy recovery to those who were injured as a result of the accident. The Company continues to focus on people and on providing social and material support to all those who were affected by the tragic events of August 17<sup>th</sup>. To achieve this, we have developed and realized a full-scale aid program – formed in conjunction with the Government of the Russian Federation, the Government of the Republic of Khakassia and representatives of community organizations and trade unions.

It is important to note that despite the tests and challenges that we faced during the reporting period, as well as the ongoing economic crisis, JSC RusHydro achieved good financial and operating results during the reporting period.

The implementation of cost-optimization programs, coupled with the professionalism and experience of our employees, allowed the Company – despite a temporary decline in power from the Sayano-Shushenskaya HPP – to increase total generation during the reporting period by 1.7% to 81,607 mln. kWh. Useful output grew 1.8% to 80,112 mln. kWh. The Company fully executed all contractual obligations for the delivery of electric power during the reporting period.

As an operating company, JSC RusHydro's most important task is to maintain and enhance existing capacities and to ensure the stability of its generating objects. During the reporting period, the Company directed RUR 11 bln. to its technical rehabilitation and modernization program. The primary focus in this area was not to simply replace out-dated equipment, but to install modern equipment with upgraded operational characteristics and increased reliability. Replacing hydro-units at the Uglichskaya HPP and installing new water-wheels at the Volzhskaya and Zhigulevskaya HPPs and block transformers at the Novosibirskaya and Saratovskaya HPPs were the Program's key accomplishments in 2009. Within the framework of this program, 32 hydro-units with a total installed capacity of 2,288 MW have undergone capital renovation.

According to 2009 IFRS results, RusHydro Group's net profit stood at RUR 31,184 bln. compared with a loss of RUR 19,481 bln. in 2008. The Company realized its investment program in the amount of RUR 64.9 bln. Taking into account the economy, the Program was corrected and downsized in the amount of RUR 18.5 bln. for the period from 2009 till 2011, including a RUR 5 bln. decrease in 2009. Capital investment has principally been directed at installing new capacity, financing the technical rehabilitation and modernization program, carrying out repairs, paying for current and potential construction projects, engaging in renewable power sources projects and also for purchasing assets. Considerable funds have also been allocated for recovery work at the Company's Sayano-Shushenskaya HPP, as well as for construction of an additional coastal spillway at the site.

One of the most significant events of 2009 was that the Company successfully completed a technical listing on the London Stock Exchange (ticker symbol: HYDR). Since July 2008, the Company's depository receipts (DRs) have been traded on the regulated market of the International Order Book (IOB). At the same time, JSC RusHydro's shares were included in the Top 10 index of the Moscow Interbank Stock Exchange (MICEX) – this index identifies the ten most liquid stocks on the Russian market. As of the end of the reporting period, the Company has begun an additional share issue that will allow the Company to move toward its target structure.

2009 also saw numerous significant operational achievements. In the Caucasus, the Head HPP of the Zaramagskaya Cascade HPP with a total installed capacity of 352 MW is under construction. This project will significantly reduce ongoing energy shortages in North Ossetia. The pilot project of the Small HPP development program was launched in the Russian Karachaevo-Cherkassia Territory – the Small Eshkakonskaya HPP with a capacity of 0.6 MW. Residents of the Malokarachaevsky District and the city of Kislovodsk in the Stavropol Region became the primary consumers of electric power produced at the Eshkakonskaya Small HPP.

In the Far East, the Bureyskaya HPP has a designed capacity of 2,010 MW. Along with the Company's Japanese partners – Mitsui and J-Power – JSC RusHydro has concluded a Memorandum of Cooperation for the Nizhne-Bureyskaya HPP, which will become a counter-regulator to the basic power station. The Far Eastern Region of Russia is the least mastered territory in Russia – in terms of hydro-power potential. Therefore, realizing these declared projects is a key direction for the Company's active work. Working together with our Japanese partners, we are realizing a wind-park construction project on the Russian Popov Island.

JSC RusHydro is participating in realizing the investment project «Complex development of Southern Yakutia» This project provides for the construction of the Kankunskaya HPP; design work on this project is moving forward at full speed.

In Siberia, construction of the Boguchanskaya HPP has been significantly accelerated. In the Caucasus, in the Kabardino-Balkariya Region, construction of the Kashatau HPP is being completed. In Kamchatka, construction of the geo-thermal block at the Pauzhetsky Geo-power Station is coming to an end.

A new push was made to realize the strategy of a vertically integrated holding able to sell its product directly on the retail market. The Group consolidated CJSC «Power Energy Sales Company RusHydro,» which owns shares in the Krasnoyarsk, Chuvash and Ryazan power sales companies. Vertical integration will allow JSC RusHydro to sell electric power directly to end users in the retail market, which will ultimately increase the Company's profitability.

JSC RusHydro recognizes the potential negative impact that its production activities may have on the environment. As a result of this, the Company is actively introducing best practice environmental protection standards, which correspond to social responsibility standards. Several of the Company's generating objects have received ISO 14001 certification in the area of ecological management.

During 2010, the Company plans to focus on three primary areas:

- To carry out additional restoration at the Sayano-Shushenskaya HPP, in strict accordance with the stipulated work schedule;
- To maintain safe and effective working conditions at the Company's existing and under-construction facilities;

- To continue work on forming a dynamically developing Holding.

It is important to note that already in 2010 the Company has successfully launched two hydro-units at the Sayano-Shushenskaya HPP and prior to the end of 2010, the Company plans to put two additional units into operation – bringing installed capacity to 2,560 MW. To efficiently control peak water flow periods, the Company plans to commission Stage 1 of the coastal spillway during Q2 2010.

The Company's management team carries out all of its activities in close conjunction with shareholders and JSC RusHydro's Board of Directors. During the reporting year, 21 meetings of the Board were held and the Board made key decisions related to the Company's current activities and for strategically prominent aspects of its development work.

There are several reasons to believe that 2010 will also see many important events for the Company. Among these events are: accelerated construction of the Boguchanskaya HPP, the search for new opportunities in the renewable energy source field and active dialogues with the international investment community – intended to stimulate increased liquidity and to maintain long-term growth in the Company's market capitalization.

Our priority will be to unconditionally maintain reliable and safe power stations. However, this is not possible without revising the Company's approach to designing, constructing and utilizing generating objects. At present, the scientific and technical community, working together with supervisory bodies, is developing new strengthened requirements for industry-wide safety. We are actively participating in this work.

On behalf of JSC RusHydro's Board of Directors and Management Board, we would like to thank all those whose efforts helped the Group demonstrate stable production growth and essential financial and economic flexibility during the reporting period. We also extend our thanks to all involved who provided us with the ability to operationally and even heroically react to the heartrending experiences that affected all of us in 2009.

We also thank our shareholders – both large and small – for their trust and belief that the Company represents a unique investment opportunity and that there is significant long-term growth potential. We can justify your trust!

Sincerely yours,

Sergey Shmatko  
Evgeny Dod

## II. Responsibility Statement

We confirm that to the best of our knowledge:

(a) the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of JSC RusHydro, and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of JSC RusHydro and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Chairman of the Management Board

E.V. Dod

Chief Accountant

O.V. Otto

### III. Performance highlights

#### JSC RusHydro Highlights

Installed capacity	25,426 MW
2009 electricity production	81,607 GWh
Average multi-year annual production	79,761 GWh
Number of generating units	53
2009 Revenue, RUR mln.	115,603
2009 EBITDA, RUR mln.	52,182
Market cap, as of Dec. 31 <sup>st</sup> , 2009, USD mln.	10,167



#### Credit ratings as of December 31<sup>st</sup>, 2009

Standard & Poor's	BB+
Fitch Ratings	BB+
Moody's	Baa3

#### Shareholder structure as of December

Government of the Russian	60.38%
Minority shareholders	39.62%
Including: ADR and GDR	8.08%

## IV. Key 2009 events

<b>January</b>	
Jan. 14 <sup>th</sup>	In Zaramag, Russia, an overlapping of a channel of the Ardon River occurred - the first stage prior to beginning flooding the future water basin for building the Zaramagskaya hydro-complex.
Jan. 19 <sup>th</sup>	A consortium of the Russian Institute of Directors and the ratings agency Expert RA - RID - Expert RS - assigned JSC RusHydro a score of 7, which corresponds to "developed corporate governance practices," according to the National Corporate Governance Ratings scale.
Jan. 23 <sup>rd</sup>	JSC RusHydro's Board of Directors approved the 2009 Investment Program, which calls for commissioning 145 MW of additional generating capacity.
Jan. 27 <sup>th</sup>	JSC RusHydro compiled its 2008 preliminary summary production and financial results.
<b>February</b>	
Feb. 9 <sup>th</sup>	JSC RusHydro's shares were included in The Bank of Russia's Lombard List. As a result, the Company's shares can be accepted by The Bank of Russia as a pledge by granting Lombard credit.
Feb. 20 <sup>th</sup>	JSC RusHydro finished placing its additional share issue via open subscription in the amount of RUR 9.999959 bln., 99.9995% of the available share issue was placed. The Russian Federation acquired RUR 6 bln. of additional shares, which contributed to the Company's charter capital funds to finance RusHydro's investment program.
<b>March</b>	
March 11 <sup>th</sup>	JSC RusHydro's Board of Directors approved a resolution on an additional share issue. As a result of this, a total of 16 bln. shares with a par value of one ruble per share will be placed.
March 12 <sup>th</sup>	JSC RusHydro's Board of Directors approved the conclusion of an agreement between RusHydro and JSC INTER RAO UES for trust management related to shares in JSC OGK-1, as a related party transaction.
March 18 <sup>th</sup>	The international ratings agency Standard & Poor's (S & P) assigned a "BBB-" credit rating and a rating of "ruAAA" (on the national Russian credit rating scale) to the bond issues of JSC Hydro WGC MC, a 100%-owned subsidiary of JSC RusHydro. The issues' ratings are at the same level as JSC RusHydro's credit ratings.
March 19 <sup>th</sup>	The Russian Federal Service for Financial Markets (FSFM) registered the Report on JSC RusHydro's additional 9.999959 bln. share issue. It was registered by the FSFM on December 2 <sup>nd</sup> , 2008 (State Registration number 1-01-55038-E-036D).
March 31 <sup>st</sup>	JSC RusHydro published FY 2008 financial results prepared in full accordance with Russian Accounting Standards (RAS).
<b>April</b>	
April 2 <sup>nd</sup>	At the Fifth Annual Contest for annual reports and web sites of power sector companies, organized by "Power Market" magazine, JSC RusHydro's 2007 annual report was named the best.
April 27 <sup>th</sup>	JSC RusHydro upgraded its participation share in JSC ESK RusHydro's charter capital from 57.44 % to 100% through the purchase of 1,282,000,000 ordinary shares (representing 42.6% of JSC ESK RusHydro's charter capital) from the "New Energy" Fund. The value of this transaction was RUR 1,285,000,000.
April 28 <sup>th</sup>	JSC RusHydro's Board of Directors considered "Implementing the Company's 2009 strategy and strategic priorities" and approved the Company's 2009 strategic development priorities. The Board also considered the Approval of the new re-stated Corporate Standard "Business Planning System" and resolved to approve it.
April 30 <sup>th</sup>	JSC RusHydro published its Q1 2009 Financial Results prepared in full accordance with Russian Accounting Standards (RAS).

<b>May</b>	
May 12 <sup>th</sup>	JSC RusHydro and Japanese Mitsui and J-Power signed a Memorandum of Intention for the JSC Nizhne-Bureyskaya HPP and the JSC Far East Wind Power Plant projects.
May 15 <sup>th</sup>	The Russian Federal Service for Financial Markets (FSFM) registered an additional issue of JSC RusHydro's ordinary shares to be placed via open subscription. The quantity of securities that are part of the additional issue is 16,000,000,000 (sixteen billion) shares with a par value of one ruble per share.
May 18 <sup>th</sup>	The Cooperation Agreement between JSC RusHydro and Russian Technologies State Corporation to introduce electric power industry objects that utilize advanced energy-saving and non-polluting technologies and equipment was completed. The Agreement also calls for the joint use of both companies' engineering potential.
May 22 <sup>nd</sup>	The RusHydro Group published its Combined and Consolidated Financial Statements for the three years ending December 31 <sup>st</sup> , 2008, 2007 and 2006, in full accordance with International Financial Reporting Standards (IFRS).
May 28 <sup>th</sup>	JSC RusHydro and the Administration of the Russian Region of Amur signed a Cooperation Agreement to complete construction of the Bureyskaya HPP in 2010; the Agreement also addressed the possibility of realizing construction work at the Nizhne-Bureyskaya HPP and the Nizhne-Zeyskaya HPP and for upgrading economic and social conditions in the Amur Region.
<b>June</b>	
June 8 <sup>th</sup>	JSC RusHydro's Board of Directors evaluated reports on the 2008-2009 activities of the Committees operating under the Board of Directors.
June 10 <sup>th</sup>	JSC RusHydro's regular Annual General Meeting (AGM) of shareholders was held. The AGM approved the Company's annual report, annual financial statements and adopted a resolution not to pay 2008 dividends on the Company's ordinary shares. The AGM also approved CJSC PricewaterhouseCoopers Audit as the Company's auditor of record (through an open tender process), approved the new version of the Regulations on Remuneration and Compensation Payments for members of the Company's Board of Directors and adopted a resolution to increase RusHydro's authorized equity capital by placing an additional 19 bln. ordinary shares, as well as elected the new Board of Directors and the Company's Audit Commission.
<b>July</b>	
May 19 <sup>th</sup> - July 2 <sup>nd</sup>	As part of the exercise of pre-emptive rights, JSC RusHydro placed 7.2 billion additional shares (or 45% of the size of the additional issue). The Government of the Russian Federation purchased additional shares worth RUR 4.923 billion, thereby, contributing funds to the Company's charter capital in order to finance RusHydro's investment program based on the Russian federal law "On the 2009 Federal budget and for the planned 2010 and 2011 period."
July 1 <sup>st</sup>	JSC RusHydro's Board of Directors considered the issue "On the Procedure for the Placement of Additional Shares of the Company" and approved, in addition to offering shares to third parties via open subscription, a procedure for placing additional shares (State Registration number of the additional issue 1-01-55038-E-037D as of May 14 <sup>th</sup> , 2009).
July 3 <sup>rd</sup>	JSC RusHydro shares were included in the MICEX Stock Exchange's 10 Index (which recognizes the ten most liquid stocks on the Russian market).
July 6 <sup>th</sup>	JSC RusHydro's Depositary Receipts (DRs) were listed on the Main Market of the London Stock Exchange, trading under the ticker symbol: HYDR.
July 21 <sup>st</sup>	JSC RusHydro increased the capacity of the Bureyskaya HPP's third hydro-unit to prepare for possible electricity transmission to China.
July 27 <sup>th</sup>	The Russian Federal Service for Financial Markets (FSFM) registered an additional ordinary share issue of JSC RusHydro's subsidiary JSC Ust-Srednekanskaya HPP with a total value of RUR 4 bln., which will be placed via closed subscription for the benefit of the Russian Federation and JSC Kolimaenergo. The additional share issue will be carried out to attract funds to complete construction of the Ust-Srednekanskaya HPP.
<b>August</b>	

Aug. 1 <sup>st</sup>	JSC RusHydro published its H1 2009 financial results in full accordance with Russian Accounting Standards (RAS).
Aug. 7 <sup>th</sup>	JSC RusHydro's Regulation S GDR program (which had been managed by The Bank of New York Mellon (www.bnymellon.com)) was converted to a Level 1 ADR program, trading under the ticker symbol: HYDR.
Aug. 10 <sup>th</sup>	JSC RusHydro closed the application process for accepting bids to acquire additional Company shares via open subscription.
Aug. 17 <sup>th</sup>	A serious accident occurred at JSC RusHydro's Sayano-Shushenskaya HPP that resulted in substantial primary and secondary damage to equipment at the site and 75 fatalities.
Aug. 18 <sup>th</sup>	JSC RusHydro declared its social obligations to the families of deceased or injured workers, as a result of the accident at the Sayano-Shushenskaya HPP.
Aug. 19 <sup>th</sup>	A Directorate was established to eliminate consequences of the Sayano-Shushenskaya HPP accident.
Aug. 20 <sup>th</sup>	JSC RusHydro launched a social support program "We are with you, Sayano!" to collect contributions for the charitable "Sozidaniye" fund to offer assistance to the families of those who died or were injured as a result of the Sayano-Shushenskaya HPP accident.
Aug. 24 <sup>th</sup>	JSC RusHydro, in conjunction with the Russian Federation Ministry of Power and JSC Lengidroprojekt, developed an organizational plan and technical measures to eliminate consequences of the accident that occurred at the Sayano-Shushenskaya HPP and to restore the power station to its normal operating mode.
<b>September</b>	
Sept. 2 <sup>nd</sup>	JSC RusHydro successfully completed an additional share issue (State Registration No.1-01-55038-E-037D as of May 14 <sup>th</sup> , 2009) placement. The total number of shares placed was 14,681,412,135, which represents 91.75% of the total number of shares (from the additional issue) that were scheduled for possible placement.
Sept. 18 <sup>th</sup>	In the Russian Republic of North Ossetia, the Head Zaramagskaya HPP Cascade was started up – with the goal of maintaining power to the construction site of the Zaramagskaya HPP - 1.
Sept. 24 <sup>th</sup>	The Russian Federal Service for Financial Markets (FSFM) registered JSC RusHydro's Report on the results of the additional share issue (State Registration No. 1-01-55038-E-037D as of May 14 <sup>th</sup> , 2009).
Sept. 30 <sup>th</sup>	JSC RusHydro completed all lump sum payments to the families of victims of the Sayano-Shushenskaya HPP accident.
End of Sept.	JSC RusHydro terminated its relationship with Standard & Poor's ratings agency (under the previous existing relationship, Standard & Poor's had provided corporate governance scores for the Company).
<b>October</b>	
Oct. 2 <sup>nd</sup>	JSC RusHydro's Board of Directors approved a new version of the Company's Regulations on Dividend Policy.
Oct. 2 <sup>nd</sup>	JSC RusHydro's Board of Directors approved the 2009–2011 Program for Implementing Environmental Policy.
Oct. 12 <sup>th</sup>	Amendments to JSC RusHydro's Articles of Association were registered in the Unified State Register of Legal Entities, as a result of the Company's additional share issue.
Oct. 23 <sup>rd</sup>	JSC RusHydro's additional share issue (State Registration No. 1-01-55038-037D as of May 14 <sup>th</sup> , 2009) was admitted for trading on the MICEX Stock Exchange without requiring listing procedure approval.
Oct. 26 <sup>th</sup>	JSC RusHydro's Board of Directors terminated the authority of Management Board members S.A. Yushin and A.V. Toloshinov and appointed D.F. Kuznetsov and A.P. Konovalov to serve on the Company's Management Board.
Oct. 26 <sup>th</sup>	JSC RusHydro's Board of Directors approved an additional ordinary share issue, as well as an Issue Prospectus. The number of securities to be issued is 19,000,000,000 shares with a par value of one ruble per share.
Oct. 30 <sup>th</sup>	JSC RusHydro published its H1 2009 financial results in full accordance with Russian Accounting Standards (RAS).
<b>November</b>	

Nov. 3 <sup>rd</sup>	JSC RusHydro's eighteen branches and three subsidiaries obtained Winter Readiness Certificates for the 2009–2010 autumn-winter period.
Nov. 19 <sup>th</sup>	The Russian Federal Service for Financial Markets (FSFM) registered an additional issue of JSC RusHydro's ordinary shares (State Registration No 1-01-55038-E-038D as of November 19 <sup>th</sup> , 2009).
Nov. 23 <sup>rd</sup>	The Sayano-Shushenskaya Hydro energy Complex, which includes both the Sayano-Shushenskaya HPP and the Mainskaya HPP, obtained a Winter Readiness Certificate for the 2009–2010 autumn-winter period (due to the earlier accident, this process was conducted according to a separate plan).
Nov. 23 <sup>rd</sup>	JSC RusHydro's Board of Directors selected Evgeny V. Dod to serve as Chairman of the Company's Management Board. At the same time, the Board also terminated the powers of four other members of JSC RusHydro's Management Board (K.V. Belyaev, B.B. Bogush, O.B. Oksuzian and R.M. Khaziakhmetov) and selected five new members of the Company's Management Board (M.A. Mantrov, G.I. Rizhnashvili, R.S. Alzhanov, Y.V. Sharov and E.E. Gorev).
Nov. 30 <sup>th</sup>	JSC RusHydro and JSC Power Machines signed a contract for hydro-power equipment production – including 10 hydro-turbines and 9 hydro-generators, with a capacity of 640 MW per generator – to fully restore the Company's Sayano-Shushenskaya HPP.
Nov. 30 <sup>th</sup>	JSC RusHydro's Board of Directors determined the offering price for the Company's additional share issue (State Registration No 1-01-55038-E-038D as of November 19 <sup>th</sup> , 2009) to be 1.15 rubles per share.
<b>December</b>	
Dec. 2 <sup>nd</sup>	JSC RusHydro published its H1 2009 results in full accordance with International Financial Reporting Standards (IFRS).
Dec. 3 <sup>rd</sup>	JSC RusHydro was ranked fourth by the international ratings agency Standard & Poor's on transparency parameters, which assess a Company's degree of information openness.
Dec. 3 <sup>rd</sup>	JSC RusHydro's PR Department won several categories in the "KonTeKst" Contest, which recognizes the PR Departments and communications projects of fuel and energy sector companies.
Dec. 7 <sup>th</sup>	JSC RusHydro obtained its Winter Readiness Certificate (issued by an Inter-agency Committee that includes local representatives from a variety of Russian governmental agencies) for the 2009–2010 autumn-winter period.
Dec. 12 <sup>th</sup>	The Placement Period for JSC RusHydro's Additional Share Issue (State Registration No 1-01-55038-E-038D as of November 19 <sup>th</sup> , 2009) started through the realization of pre-emptive rights. Pre-emptive rights were also offered to DR holders.
Dec. 16 <sup>th</sup>	A consortium of the Russian Institute of Directors and the ratings agency Expert RA - RID - Expert RS – gave JSC RusHydro a score of 7, which corresponds to "developed corporate governance practices," according to the National Corporate Governance Ratings scale.
Dec. 28 <sup>th</sup>	JSC RusHydro increased its share in JSC Geoterm's authorized capital from 71.61% to 79.84%.
Dec. 28 <sup>th</sup>	In the Karachaevo-Cherkessia Republic of the Russian Federation, the Eshkakonskaya Small HPP was opened – it is a pilot project for the Company's Program of Small-scale HPP development.

## V. The Company's 2009 Strategy and Mission

Under “Basic conditions for JSC RusHydro” – which was approved on October 19<sup>th</sup>, 2007 – the Company's Board of Directors affirmed the following mission and strategic goals:

### *Mission*

The Company's mission is to effectively use hydro resources, to create necessary conditions for reliable operation of the Unified Energy System (UES) and to increase the usage of a broad-range of renewable energy sources (including: tidal, wind and geo-thermal) to benefit the Company's shareholders and society, as a whole. The management team is focused on generating long-term organic growth to transform JSC RusHydro into a global blue chip power sector company, operating in the renewable energy segment.

### *Strategic aims*

- Creating conditions to ensure system reliability and the safe operation of the Company's sites;
- Focusing on the sustainable development of energy production, using renewable energy sources;
- Increasing the Company's market capitalization.

### *Strategic initiatives*

#### *1. Ensuring the maximum effectiveness and reliability of current assets*

The Company's existing assets form the foundation for the Company's effective operation, as well as for future successful development. Ensuring maximum effectiveness and reliability is one of JSC RusHydro's key strategic priorities.

Effectiveness and reliability are ensured through the realization of the following measures:

- Complex long-term technical rehabilitation and modernization programs (these programs are a key part of the Company's investment program and are scheduled to be completed by 2020), including: to increase installed capacity, to ensure equipment maneuverability and manageability, to automate technical processes and to effectively utilize new technologies;
- Increasing corporate profitability by optimizing operations during both basic and peak load periods;
- Contributing to the adoption of governmental regulations to create an appropriate model for energy, capacity, system services and production instrument markets, including regulations that provide for subsequent Russian energy market liberalization;
- Creating a system to manage conditions at hydro-technical constructions, including non-energy ones, which are Russian state property, including providing necessary services.

#### *2. Realization of projects to create additional power capacity in Russia*

The Company initiates and strives to participate in commercially effective projects to build new power capacity using renewable energy sources (RES), creating conditions necessary for efficiency. The Company also contributes to resolving some state problems.

The Company's realization of commercially non-viable projects – which are, however, necessary to ensure system effectiveness and reliability – is carried out by receiving (preserving) sources for realizing said projects under schemes that minimize negative impact on the Company's costs.

The Company evaluates its participation in investment projects, not only as an investor, but as a developer, looking at a wide range of issues/services, including: formulating plans to realize projects, designing, managing the construction process, maintaining operations at already built objects and selling produced power.

### *3. International activity*

JSC RusHydro believes that Russia and the development of the domestic energy market should remain its key priorities for the foreseeable future. However, the Company is actively considering expanding its activities in a range of promising international markets, as one of its future development priorities. Principal directions for international activity include:

- Realizing investment projects, including within the framework of joint ventures with foreign parties. In the long-term, the Company is considering numerous foreign projects which may help the development of the Eurasian power system;
- Assigning services for controlling hydro-power assets, engineering services and services for operating hydro-power plants;
- Exporting energy and capacity to well-defined target markets;
- Signing bi-lateral cooperation agreements with foreign electro-technical, design and engineering companies;
- Actively cooperating with international inter-governmental organizations, as well as with industry-specific and business associations;
- Organizing cooperation in both the hydro-power and renewable energy source market segments – based on innovation and technology exchange in areas of expertise (competitive advantages).

### *4. Brand portfolio development*

Primary directions for developing JSC RusHydro's business portfolio include:

- Acquiring hydro-technical assets;
- Developing its own project and engineering business;
- Developing the retail marketable business segment;
- Participating in the charter capital of important energy consumers;
- Developing the Company's own in-house engineering construction business (construction organization).

### *5. Corporate-wide projects*

To increase operational effectiveness and to upgrade existing corporate governance practices to international best practice standards, the Company's management team has implemented the following measures:

- Improving the Company's organizational structure and the system of regular and operational management, including the technologization and informatization of management processes, including: structuring and regulating business processes;

- Improving the corporate internal audit and risk management systems to help minimize downside risks to the Company's market capitalization and to protect shareholders' (particularly minorities') rights;
- Instituting personnel development programs, including creating a complex training program, improving the existing incentive system (to appropriately motivate employees) and creating a network-distributed corporate university;
- Upgrading the Company's ecological management system to meet international best practice standards;
- Developing PR-, IR- and GR-activity, including building an effective communication system with the market and fully conforming with all legal and regulatory requirements for public companies (as stipulated by the Company's listing exchanges).

At the moment, as a result of the introduction of new tasks (related to comprehensive reform in the Russian power sector), dramatic changes in the global financial markets and on-going evaluation of the causes of the Sayano-Shushenskaya HPP accident, the Company's management team is revising its corporate strategy.

## VI. Company History

Within the framework of state-mandated Russian power sector reform and the formation of a competitive structure within the industry, in 2004, the Company was formed as an open joint stock company, the sole shareholder of which was RAO UES of Russia. At the moment of its founding, the Company was named Open Joint Stock Company (OJSC) “The Federal Hydro-generating Company” (HydroOGK). The Company’s formation was in full compliance with Directive No. 1254-p issued by the Government of the Russian Federation on September 1<sup>st</sup>, 2003.

In 2008, due to a decision at the Company’s General Meeting of shareholders, the Company was renamed Open Joint Stock Company (OJSC) “RusHydro” (RusHydro or the Company, later in the Report).

The significant hydro-generating assets that previously belonged to RAO UES of Russia were included under the newly created JSC RusHydro umbrella. The creation of the Company – Russia’s largest renewable power company – occurred in several stages from 2005 to 2008. These stages included an additional share issue, which was paid for with shares of hydro-electric power plants, as well as other energy-producing assets. Other stages involved consolidation – as subsidiary and dependent companies (SDCs) joined the Company.

In 2007, as a result of an additional share issue on behalf of the Russian Federal Agency for State Property Management (*Rosimushchestvo*), the Company’s shareholder structure underwent a significant change. Based on a Russian Federation Government Order, following this share issue, the Russian Federation – acting through *Rosimushchestvo* – held a controlling share in the Company.

In January 2008, the following companies became part of RusHydro as a result of consolidation: OJSC “Volzhskaya HPP,” OJSC “Zhigulevskaya HPP,” OJSC “Votkinskaya HPP,” OJSC “P.S. Neporozhny Sayano-Shushenskaya HPP,” OJSC “Zeyskaya HPP,” OJSC “Bureyskaya HPP,” OJSC “Kamskaya HPP,” OJSC “Cascade of the Verkhnevolzhskiy HPPs,” OJSC “Nizhegorodskaya HPP,” OJSC “Saratovskaya HPP,” OJSC “Cheboksarkaya HPP,” OJSC “Zagorskaya PSHP,” OJSC “Stavropolskaya Electric Generating Company,” OJSC “Dagestanskaya Regional Generating Company,” OJSC “Kabardino-Balkanskaya Hydro-generating Company,” OJSC “Sulakenergo,” OJSC “Zelenchukskie HPP,” OJSC “Severo-Osetinskaya Hydro-generating Company,” OJSC “Kabardino-Balkanskaya Hydro-generating Company” and CJSC “EOZ.”

During the end stages of comprehensive sector reform, in July 2008, OJSC “State Holding HydroOGK,” OJSC “Minority Holding HydroOGK,” OJSC “Irganayskaya HPP” and OJSC “Cascade of the Nizhne-Cherekskiye HPPs” were spun off from RAO UES of Russia. Following the spin-off, these companies were then re-organized and included in the “RusHydro” family and their shares were converted into JSC “RusHydro” shares.

As a result of multi-stage consolidation, the Company currently unites more than 50 hydro-electric power stations (which represent a significant portion of all domestic HPPs) – with an aggregate installed capacity of more than 25 GW – in 18 regions of the Russian Federation. The total number of Company shareholders was in excess of 360 thousand.

In July 2008, the target model for the Company was created. The Company’s shares were placed on the Russian capital market in an attempt to stimulate liquidity, increase market capitalization

and broaden and diversify its shareholder base. In addition, to grant rights to former depositary receipt holders of RAO UES of Russia, a depositary receipt (DR) program was launched. This program is managed by The Bank of New York Mellon (BNY Mellon).

## VII. Market Overview

### Sector Reform

JSC RusHydro's management team believes that the Company is uniquely positioned to benefit from ongoing sector reform and power sector liberalization in Russia – providing it with another distinct competitive advantage over many of its domestic peers – primarily due to the synergy between generation and retail sales activities.

Russia's power sector is the fourth largest in the world (lagging behind only the United States, China and Japan) – in terms of both installed capacity and electricity output. And since the 1998 economic crisis, the demand for electricity has soared domestically – largely following economic trends (such as GDP growth rate, which has averaged an annual compounded 6.8% increase from 1998 to 2008).

The Russian power sector is heavily reliant on fossil fuels, but other energy sources including hydro-power and nuclear energy are also utilized. As part of its commitment to improved ecological standards, Russia, as a whole, recognizes the importance of exploring renewable energy sources (RES) – and JSC RusHydro is at the forefront of these efforts. At present, RusHydro has more than 50% of the country's installed hydro capacity. It also should be noted that nuclear energy has a single monopoly player – the Atomenergoprom Holding.

As a result of this increased demand, Russia's peak load – as a percentage of installed capacity – has increased significantly, reaching 72% in 2008. This increase has been particularly dramatic in cities with high population density, including: Moscow, Saint Petersburg and the Tyumen Region where consumption (particularly during periods of non-standard low temperatures, such as the 2005 – 2006 winter season) has bumped up almost against 100% load capacity of generating facilities and has led to the need for energy consumption restrictions. In general, UES is conditionally divided into six geographic regions that are referred to as Integrated Energy Systems (IESes). The Northwest, Siberian and Central IESes have traditionally been the largest energy consumers – primarily due to the fact that the most power-intensive industries - such as metallurgy and mining – are clustered in these regions.

After the collapse of the Soviet Union, development of the power sector practically stopped, because of under-investment due to poor economic conditions during the early- and mid- 1990s and the opaque nature of RAO UES of Russia's (the industry monopoly) activity and the absence of competitive market pricing mechanisms.

Faced with potential energy deficits that would have impacted both residential consumers and industrial customers (which could have generated a negative multiplier effect on the economy as a whole), the Russian Government started a reform process in 2001 – in part to make the sector more attractive for strategic and other investors, thus attracting funds to address issues ranging from equipment obsolescence to potential energy deficits.

The Russian power sector reform process is regulated by Provision № 526 of the Russian Government, “On the process of reforming the power sector of the Russian Federation” dated July 11<sup>th</sup>, 2001 (Provision № 526). Provision № 526 has a multi-pronged focus, including: (a) reforming the market structure; (b) liberalizing competitive segments of the power (which include: generation, sales, repairs and service); and (c) improving regulatory pricing in non-competitive segments of the power sector (which includes transmission and distribution).

As a result of the execution of positions of Provision № 526, the overall structure of the power market was changed by distributing all vertically-integrated structures of energy companies (“JSC-Energy”) that were previously controlled by JSC RAO UES of Russia and creating companies uniquely focused in distinct spheres of: generation, transmission, distribution, retail sales and repairs and service work.

The restructuring process was concluded July 1<sup>st</sup>, 2008 when more than 20 independent companies were spun off from JSC RAO UES of Russia; each of these companies are part of either the competitive sector (generation, energy sales and repairs and servicing) or the non-competitive sector (transmission and distribution).

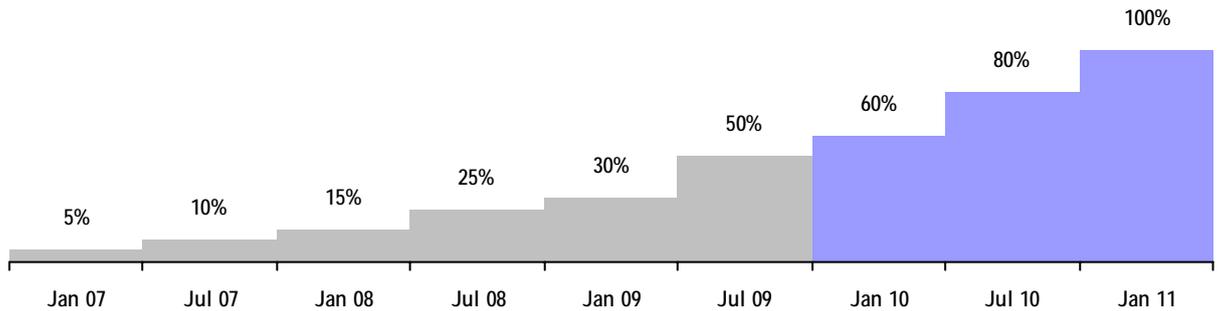
An important step in developing the competitive model for the wholesale power (capacity) market was the adoption of new Regulations on the wholesale power (capacity) market, which were adopted by a provision of the Russian Government dated August 31<sup>st</sup>, 2006 № 529 (later in the text “Regulations”), which came into effect as of September 1<sup>st</sup>, 2006.

In accordance with new operational rules for the wholesale market, four power sector segments were introduced:

- The regulated sector: buys and sells previously defined power (capacity) volumes at tariffs (prices) that have been approved by the Russian Federal Service for Tariffs. This sector (the regulated sector) will cease to exist as of January 1<sup>st</sup>, 2011 – when the market is expected to be fully liberalized – with the exceptions of electricity for residential consumers and the non-price zones of the wholesale power sector;
- The day-ahead market (spot market): buys and sells power (capacity) at free prices determined by the market, defined as a result of exchange selection of price offers of suppliers and buyers;
- Un-regulated bilateral agreements (the day-ahead market segment);
- The balancing market (competitive trade in volumes that deviate from the trading schedule formed according to results of the exchange auctions on the day-ahead market).

The period from September 1<sup>st</sup>, 2006 till 2010 is considered a “transition period” for sector reform, which will result in full liberalization of the wholesale power and capacity market. During this period, the percentage of electricity sold via the regulated sector will decline on a regular basis at pre-determined dates. The graph below fully specifies the increase in the free (unregulated) market share of the energy sector – leading up to January 1<sup>st</sup>, 2011, when it is anticipated that a fully competitive wholesale market for power and capacity will have been formed.

## The electricity market to be fully liberalized by 2011

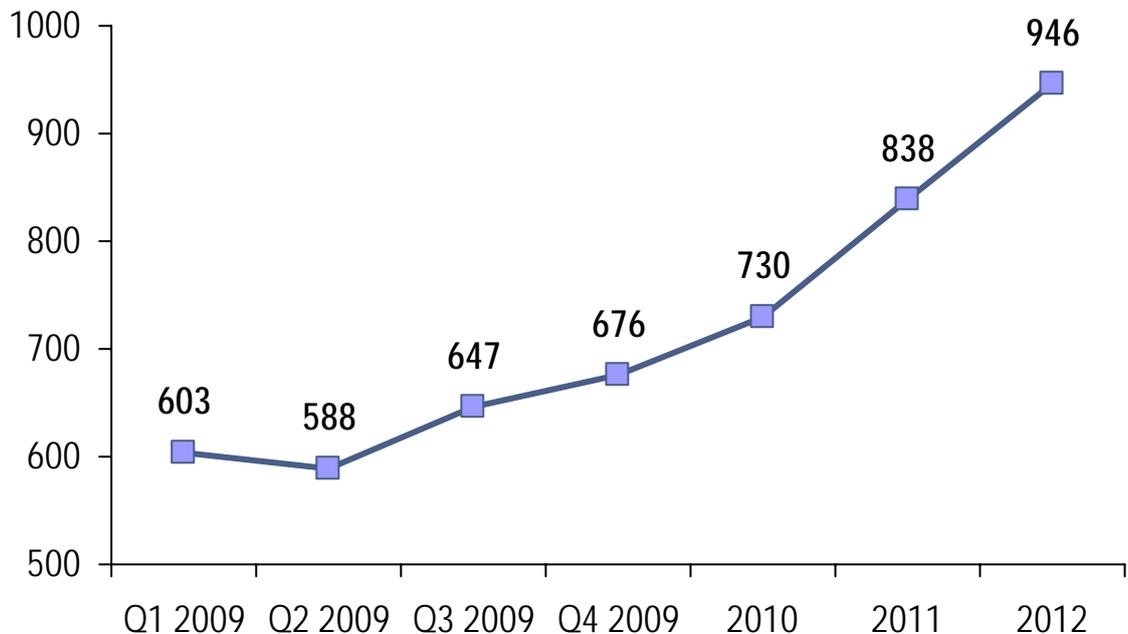


Key. Grey figures represent actual results; the light purple area refers to forecast figures. The numbers in the graph above are based on Russian Government Decree № 205.

Russia is divided into two pricing zones. The first pricing zone includes: the Central, North-West, Middle Volga, South and Urals IESes, and the second pricing zone includes the Siberian IES. Due to network grid restrictions, forming free market prices is established separately in each pricing zone. It should be noted that prices in the second pricing zone tend to be lower due to the higher percentage of HPPs in this zone.

The graph below shows projected prices in Zone One through 2012.

### Free market prices (European price zone of Russia) forecast, RUR/MWh



On June, 28th, 2008, Government Provision № 476 made amendments to Rules of the wholesale market which have provided for the introduction of competitive mechanisms of capacity trade in

the new wholesale market during a transition period under the framework of contracted volumes according to regulated tariffs.

Competitive mechanisms for capacity sales foresee guaranteed payments under tariffs not more expensive than those established by the Russian Federal Tariff Service for capacity included in the yearly forecast balance as of January 1<sup>st</sup>, 2007. At the same time, the sales of indicated capacity can be carried out under bilateral agreements with consumers, not limited by the Russian Federal Tariff Service tariff. The price for capacity at new generating assets installed after January, 1<sup>st</sup>, 2007 is not limited to the regulated tariff, but should also be economically proved. Suppliers' conformity with given criteria is controlled by a wholesale trade organization – the non-commercial partnership Market Council on organizing an effective system for wholesale and retail sales of power and capacity (later referred to as the Market Council).

## Peer Group

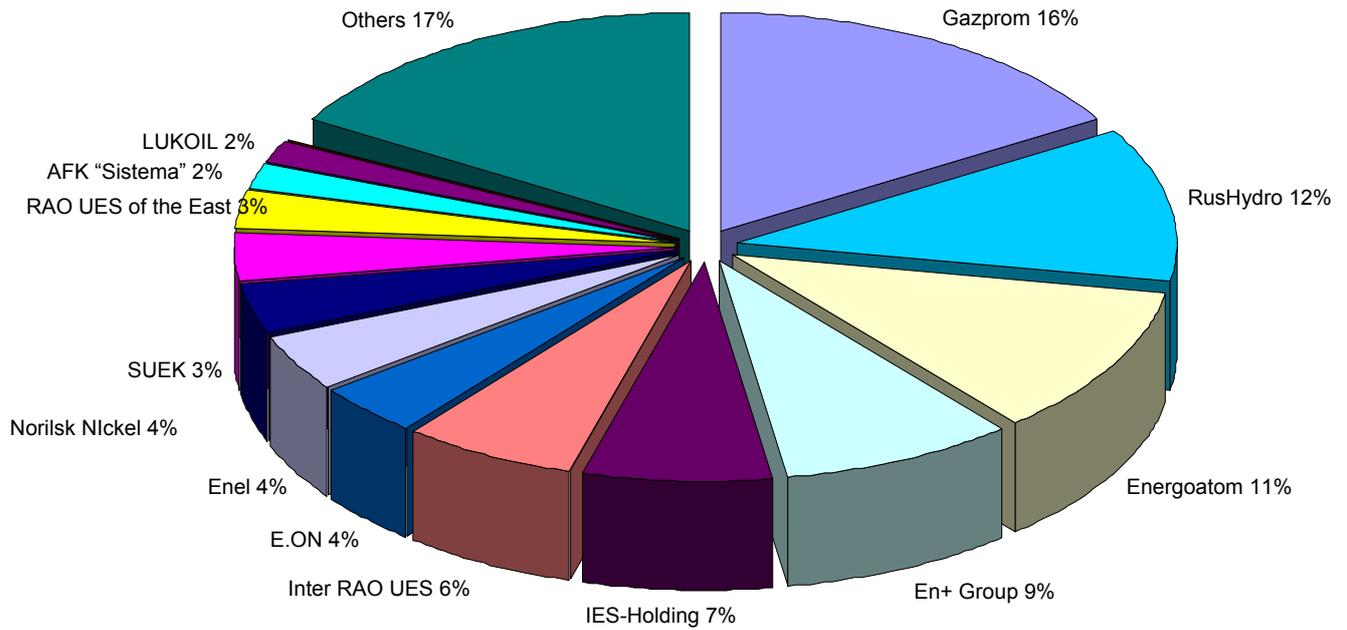
The Table below provides detailed information about the Company's sector position in Russia (vis-à-vis its peer group – based on installed capacity), as well as market share percentages.

Market share (measured via installed capacity) for Russia's generating companies:

No	Controlling/holding company	Generators	Market share %
1	Gazprom	TGC-1 TGC-3 OGK-2 OGK-6	16%
2	RusHydro	RusHydro	12%
3	Atomenergoprom	Atomenergoprom	11%
4	En+ Group	Irkutskenergo Krasnoyarskaya HPP	9%
5	IES-Holding	TGC -7 TGC -9 TGC-6 TGC-5	7%
6	Inter RAO UES	Inter RAO UES OGK-1 TGC-11	6%
7	E.ON	OGK-4	4%
8	Enel	OGK-5	4%
9	Norilsk Nickel	OGK-3	4%
10	SUEK	Kuzbassenergo TGC-13	3%
11	RAO UES of the East	DGK	3%
12	AFK "Sistema"	Bashkirenergo	2%
13	LUKOIL	LUKOIL (TGC-8)	2%
15	Others	Others	17%
Total			100%

**Note.** During comprehensive reform in the Russian power sector in 2008, numerous international blue chip energy players entered the Russian market – purchasing controlling shares primarily in thermal energy producers (OGKs and TGCs). Significant international players with a presence in the market include: E.ON, Enel and Fortum, among others.

**Market share (installed capacity) for Russia's generating companies**



The next table provides brief descriptions of some of JSC RusHydro's largest and/or most significant domestic peer group competitors, as well as more detailed information on spheres in which these companies may directly or in many cases, indirectly compete with RusHydro:

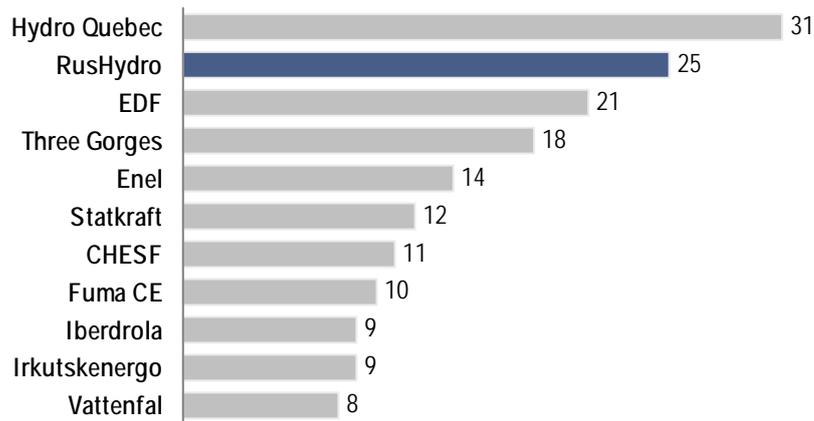
<b>Main competitors</b>	<b>Characteristics</b>	<b>Sphere(s) of competition</b>
The Atomenergoprom Holding	Broad geographic coverage in the European area of Russia, but little to no representation in Siberia (which is a highly energy intensive region). Basic production. Advantage – close to optimal load. Disadvantages – low maneuverability and little effect from the balancing market.	In sales, competition may arise only if supply exceeds demand due to a radical drop off in consumption. In development, there may be competition for state financing resources.
Thermal generation companies (OGKs and TGCs)	Broad geographic coverage (more than 70% of Russia) – the largest share in the country. Advantages – the possibility of filing a price application on the day-ahead market and the priority of the load for the heating cycle, access to modern foreign business technologies by OGKs and TGCs that have been acquired by international energy companies. Disadvantages – relatively low maneuverability and higher fuel prices and gas limitations.	In sales, there will be competition based on volumes during different parts of the day in the heating cycle.
TGCs, which includes HPPs	TGC-1 (approx. 2900 MW), TGC-8 (approx. 350 MW) and other companies. Advantages – the possibility to hedge risks based on the potential unavailability of fuel and water. Disadvantage – the HPPs are primarily small-sized with high costs.	In sales, there will be competition based on volumes during different parts of the day. In development, there will likely be competition for the right to develop hydro-potential.
Private HPPs and HPPs which were not part of RAO UES of Russia	Irkutskenergo (over 9,000 MW for the HPP), Krasnoyarskaya HPP (6,000 MW), Tatenergo (over 1,200 MW) and others. Advantages – the possibility to hedge risks based on the potential unavailability of fuel and water. Disadvantages – significant obligations to partners and society.	In sales, there will be volume competition during spring high water flow periods. In development, there will likely be competition for the right to develop hydro-potential. In regulation, there will be load competition during hours when prices are at their maximum.
RAO UES of the East	Coal TPPs, the unified buyer on the territory of the Far East (DEC), energy distribution assets (Mosenergosbyt, the St. Petersburg distribution company, Altayenergosbyt, Saratovenergo and the Tambov electric distribution company).	In sales, there will be competition to enter the preliminary dispatcher graph of the load. In development, there will be competition with new investment projects for energy export sales, as well as for sales to new consumers with high energy consumption. In retail distribution activity, there will be competition for the right to form a federal distribution holding company on the basis of electricity distribution companies that are directly or indirectly controlled by the state.
JSC Inter RAO UES	Export-import operator and the managing company for Russian and foreign generating objects. Advantages – full usage of opportunities for generator and energy distribution companies. Disadvantages – regulated activity, decreased export possibilities based on a demand shortfall.	In sales, there will be competition based on volumes during different parts of the day. In development, there will be competition to develop projects, including hydro-generation projects.

The table below offers detailed descriptions of various international companies that JSC RusHydro (as well as many of the Company's covering and non-covering analysts) defines as being part of its peer group – for comparative purposes:

<b>Company</b>	<b>Sales volume</b>	<b>Average sales price (buying)</b>
<b>E-CO (Norway)</b> - hydro-generation - trading	9.7 billion kWh (production)	EUR 0.03-0.05/ kWh
<b>Elkem (Norway)</b> - hydro-generation - trading - aluminium production - silicon production - foundry engineering	3 + 1.2 = 4.2 billion kWh (production) 8 + 12 = 20 billion kWh (consumption) 450 billion kWh (financial contracts)	EUR 0.03/ kWh
<b>Norsk Hydro (Norway)</b> - hydro-generation (21 HPPs, renewable energy sources) - aluminium production	10 billion kWh (production)	–
<b>Wien Energie - Wienstrom (Austria)</b> - generation (4 HPPs, 3 TPPs, 2 wind and 1 bio-mass facility) - grid company (electricity, gas, heating) - trading - retail sales (2 million persons + 230 thousand companies + 4.5 thousand farms) - telecommunications - energy consulting - energy saving	11 billion kWh (production)	EUR 0.05/ kWh
<b>Verbund (Austria)</b> - generation (90 HPPs) - grid company - trading - retail sales (35 thousand clients in 2006)	29 billion kWh (production) 57 billion kWh (consumption)	EUR 0.055/ kWh
<b>Powerex – a subsidiary of BC Hydro (Canada, USA)</b> - generation (11 GW BC Hydro) - grid company (BC Transmission Corporation) - trading (Powerex)	43 billion kWh (production)	Canadian \$ 0.037-0.073/ kWh for various consumers, not including taxes
<b>Hydro Quebec (Canada)</b> - generation (36 GW) - grid company - trading (including in USA)	171 billion kWh (production)	Canadian \$0.0279/kWh

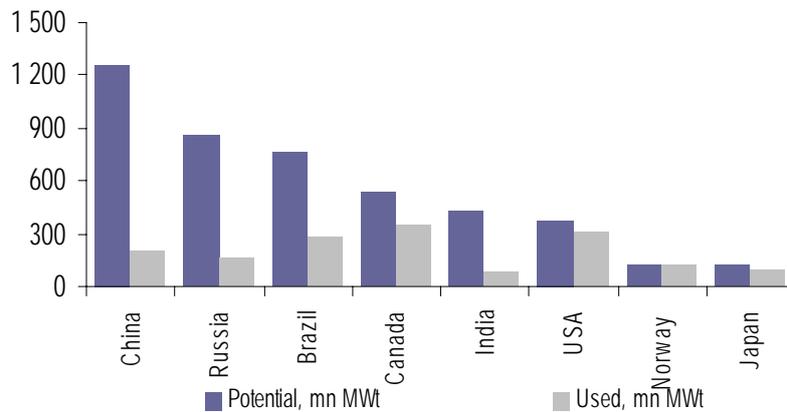
The graph below provides additional details about RusHydro's installed hydro-capacity – compared to other (primarily international) hydro-power producers. The graph illustrates that RusHydro trails only Hydro Quebec (a non-public company) based on this indicator.

### RusHydro vs. hydro capacities of its world peers (GW)



However, despite RusHydro’s significant installed hydro-capacity, this segment of the Russian power market remains largely untapped and severely under-utilized for a variety of reasons. The graph below demonstrates that Russia, as a whole, utilizes only 19% of its hydro potential (lagging significantly behind countries including: Norway, Japan and the United States, which use upwards of 80% of their hydro-potential).

### Potential and realized hydro capacity



Note. Realized hydro-capacity figures in the graph above are: 16% for China, 19% for Russia, 27% for Brazil, 65% for Canada, 82% for the United States, 96% for Norway and 84% for Japan. These figures, and all figures in the graph above, are courtesy of RAO UES of Russia.

The Company believes that the main reason for this traditional under-utilization is easy access to fossil fuels in Russia.

### Competitive Advantages

JSC RusHydro believes that by comparing the operating and financial conditions of the above-mentioned domestic and international companies with RusHydro itself that both international and domestic investors will see RusHydro as a highly attractive investment opportunity – offering both retail and institutional investors an opportunity to capitalize on the global trend toward ecologically clean energy production, as well as ongoing Russian domestic power sector reform (which is likely to benefit JSC RusHydro as an efficient and low-cost energy producer).

As Russia's largest hydro-energy producer with a unique, high quality asset base – and the largest publicly traded hydro-power company in the world (with significant liquidity on both Russian Stock Exchanges (MICEX and RTS), as well as in its Depository Receipts) – the Company offers its investor the following competitive advantages:

1. **Ecologically clean production.** The Company's resources are renewable and hydro-power has proven to be the most ecologically friendly energy source – minimizing dependence on fossil fuels, including: coal, natural gas and fuel oil (which have been traditional energy sources in the Soviet Union and Russia (particularly in energy-intensive sectors, such as metals and mining) and also a known culprit for creating high levels of environmental pollutants) and reducing atmospheric emissions from thermal power plants;
2. **Maneuverability and flexibility.** HPPs are the most maneuverable energy assets and output from these sites can be significantly increased or decreased based on changing needs during increases (or decreases) in peak load consumption (Note. In Russia, and particularly in the Siberian Region, peak loads tend to occur during the cold-weather winter months. Not only is there seasonal cyclicity in peak loads, there is also a significant difference in loads at different points in time during each day). In addition, the shut-down costs for HPPs are significantly lower than for other types of power plants;
3. **Attractive cost structure.** RusHydro's energy production does not involve significant levels of fuel needs. And the absence of a fuel component in the Company's cost structure means that the Company is not dependent on often dramatic fluctuations in global fuel prices – thereby, allowing the Company a greater opportunity to maintain costs at current levels or to reduce said costs through innovative cost-cutting measures (which ultimately increases the Company's ability to be cost-competitive on the liberalized capacity market). This in turn means that the Company is able to offer its end-users some degree of stability, in terms of long-term energy prices;
4. **Long useful life.** HPPs have a significantly longer useful life than thermal power plants and other energy sector facilities, which in the long-term decreases the Company's costs and the need to obtain financing for relatively expensive construction projects.

## VIII. Risk factors

The Company recognizes that it faces significant operational and financial risks – largely due to the sector that it operates in. These risks are further heightened, relative to other global power sector companies, because of uncertainty in the Russian economy and ongoing country-wide sector reform.

In light of the above challenges, the Company actively works to identify, evaluate and minimize the potential effect that these risks may have on performance. By effectively minimizing this impact, the Company becomes more attractive for potential investors, as well as for existing shareholders.

The risks that the Company faces can be further divided into three basic categories: country-, sector- and Company-specific risks.

### **Country-specific (Russia) risks:**

- The Russian legal system is less well-developed than judiciary systems in many Western countries and does not have a particularly well-established tradition of upholding legal judgments or protecting the rights of minority shareholders during business disputes. Non-Russian companies and foreign citizens have encountered particular difficulties in the past in receiving satisfactory results from Russian courts – and achieving satisfactory results often requires significant commitments of monetary resources and time. Although the Company is not currently involved in any major lawsuits (that would affect the Company's bottom line), there remains the possibility of legal action(s) that could result in short- to medium-term uncertainty, on issues ranging from corporate restructuring to taxation. It should be noted that the Russian tax system remains a continued source of uncertainty;
- The Russian economy has experienced a significant economic downturn – beginning in the fall of 2008 and continuing through all of 2009. This downturn has affected the entire economy, although certain sectors, such as metallurgy, mining and concentrating, machinery and metal-working manufacturing (which are traditionally large power consumers) have been particularly negatively impacted. Despite a number of positive signals connected with higher domestic power consumption in Q4 2009 and Q1 2010, it still remains not entirely clear how the Russian economy will respond in 2010 and beyond. Continued economic uncertainty may negatively impact many of the Company's largest corporate consumers (as well as individuals), which in turn can lead to downgrading long-term forecasts for power consumption growth in Russia, as well as to revising the rationale behind the realization of numerous investment projects;
- During the last 10 years, Russia has experienced sustained high inflation rates – in some years, these rates have been upwards of 20% -- although true hyper-inflation seems to be a thing of the past. During the reporting year, the Russian inflation rate stood at 8.8%. Given that a certain percentage of electricity sales in 2010 still occur at state-regulated prices, there is a risk that the inflation rate will exceed the yearly increase in tariff prices – effectively driving up the cost of equipment and other inputs that affect the Company's revenue and thus, negatively impacting the Company's profit margins. In light of this significant risk, the Company has implemented aggressive cost-cutting measures and there are already tangible indications of success in this area. Thus, it is necessary to note

that in 2010 the share of sales under free unregulated prices already considerably exceeds the share of sales at regulated prices, which allows us to draw conclusions on the lack of strong importance of this particular risk for the Company's activities.

When inflation rates grow, the Company plans to increase the turnover of working assets at the expense of changing contractual relationships with consumers. In particular, the Company introduced a monitoring system that assesses the conclusion of contracts through the introduction and usage of "typical financial conditions" (which includes: payment structure, payment terms, a percentage parity of advance payment and final settlement, etc.) for interactions with counterparties. Taking into account that tariff increases are capped at no more than 7-10 % per year till 2012, as well as the level of potential profitability for the Company's activities, according to the Company's own estimates, inflation rates of less than 20% per annum should not pose significant difficulties to the Company;

- Due to the above-mentioned economic downturn, there has been a significant tightening of the domestic credit market – across sectors and irrespective of firm size, Russian companies have had a more difficult time obtaining attractive credit terms on the international market as well. Due to this tightening, there has been a marked increase in interest rates which has increased the Company's cost of borrowing because interest rates on the existing loan portfolio are tied to the floating MOSPRIME interest rate. To minimize risks related to interest rates on the Company's financial obligations, SWAP contracts were concluded; these contracts fixed the floating interest rate for 2009 payments. Additionally, if the Company would need to raise external funds for any of its ambitious renovation programs (or the costly rehabilitation program at the Sayano-Shushenskaya HPP, following the August 2009 accident at the site), there is no guarantee that these funds would be available at attractive terms;
- Continued sector reform hinges on the political will of the Russian government and the Government's continued commitment to the comprehensive reform program. Although this support seems stable at the moment, a change in government may lead to decreased interest in finalizing reform measures.

### **Sector-specific risks:**

The first risk factor from the risks outlined below can primarily be attributed to ongoing sector reform in Russia and continuing uncertainty over certain portions of the reform, whereas the final two risks are more general in nature.

- Russian power sector reform will ultimately lead to the creation of an entirely *liberalized* electricity market, where all electricity – with the temporary exception of that sold to residential consumers, as well as for non-priced and isolated regions (which are exempt), electricity will be sold at non-regulated prices, determined by market supply and demand. Full liberalization is scheduled to occur in 2011. Between now and then, there will be a gradual increase in the percentage of electricity sales that occur via the free market.

There are two potential risks related to the creation of a liberalized market: (a) although the Russian Government seems to fully support reform, there is always the chance that the Government may withdraw its support or increase the length of the transition period. This could negatively affect investors' perceptions of the sector and the Company as well and (b) given the fact that this system is new and market players (including the Company

and its specialists) do not have a significant volume of relevant market statistics, it is difficult to forecast how increased liberalization will influence price. With a high level of confidence, it is possible to assert that as a whole, non-regulated prices will be above regulated prices set by the State for the Company. However, at certain hours and during high water flow periods, it is possible that prices may be “zero” or at a rate close to zero.

Generally, market liberalization should not lead to lower annual average prices than previously existed;

- Generating the vast majority of its power from hydro-resources, the Company depends on a steady and reliable supply of water – which to a large degree depends on global weather patterns and other factors outside the Company’s control. In the recent past, water flow has been significantly below historical norms at some of the Company’s key HPPs, including Sayano-Shushenskaya and Bureyskaya.

As the Company continues to actively engage in research into alternative energy sources and effectively diversifies its energy base (as a result of this research), this risk will be diminished – at least to some degree.

At the moment, minimizing this given risk is carried out within the limits of conducting the Company’s sales activity through the following actions:

- Preparing proposals to change the existing legislative framework regarding the freedom of HPPs’ intra-day planning of its own production and giving price offers;
- Protecting the interests of HPPs in inter-departmental operative groups at Russia’s Federal Agency on Water Resources;
- Concluding hedging bilateral contracts on the day-ahead market (including for electric power purchases to meet obligations on wholesale market for electricity and capacity).

Another water-related risk is the risk that the Russian Government may choose to increase the fee for water usage. If this fee, which is a non-negligible component of the Company’s costs, increased significantly, then it could potentially negatively affect financial performance and thus, the Company’s market valuation;

- Due to significant under-investment in the Russian power sector following the break-up of the Soviet Union, property, plant and equipment (PPE) in the sector is aged and outdated – leaving it potentially vulnerable to natural disasters, technical failures and other emergencies. These events in turn could have a serious negative environmental impact on the area and surrounding regions where power facilities are located, particularly on the water supply.

This issue and the potential consequences that it could result in were already on the Company’s radar screen prior to the fatal accident at the Sayano-Shushenskaya HPP in August 2009. As a result of power units that had exceeded their useful life, the Company had already begun to put in place its 2006 – 2020 Technical Rehabilitation and Modernization Program. However, the Sayano-Shushenskaya accident clearly accelerated plans to upgrade PPE and to implement state-of-the-art safety standards at power plants and other sites, as well as carrying out work to introduce changes and additions to Russian Federation legislation related to ensuring the safety and reliability of hydro-power assets.

If further accidents were to occur (despite the best efforts of the Company to minimize the likelihood of this happening), in addition to potential fatalities and/or serious injuries, environmental impact and damage to property, plant and equipment, it would significantly negatively affect the Company's bottom line (and potentially market valuation) and may require significant funds for restoration, renovation and rehabilitation.

### **Company-specific risks:**

- The Russian government is the Company's largest shareholder – holding 60.38% of the Company's charter capital, as of December 31<sup>st</sup>, 2009 (Refer to the Relevant Shareholder Information section of the Annual Report for additional information about the shareholder structure). Given the Government's majority holding, there is a risk that the interests of the Government and those of minority shareholders may not always be aligned, and that the Government may be motivated by non-commercial factors when making decisions (and that these non-commercial factors may not be in the best interests of minority shareholders). There is also a risk that initiatives and measures may be passed despite objections raised by minority shareholders. It should be noted that although minority shareholders could take rights disputes (arising from the above-mentioned situation) to the legal system, the Russian legal system does not have a strong track record of protecting minority rights in shareholder disputes. Resolving these disputes may require a significant time commitment, as well as financial resources;
- One of the Company's largest (measured by cost) and most important CapEx projects is the Boguchanskaya HPP – a project in the Krasnoyarsk Region designed to reduce capacity shortage in the Siberian grid and to ensure stable and reliable energy supply for consumers in this area. This project – which will introduce 3,000 MW of installed capacity and is scheduled for completion by 2012 (with the launch of hydro-units beginning in 2010) – is a joint project between the Company and UC RUSAL, one of Russia's largest aluminum producers.

At various points in time, the Company has encountered difficulties and road blocks with moving this project forward, including a significant delay in obtaining financing that RUSAL owed for equipment and construction. Following government intervention and extensive negotiations, all issues have been ironed out and the project remains on a new accelerated construction schedule (this acceleration can partially be attributed to the Sayano-Shushenskaya HPP accident, as well). However, there are inherent risks when a project involves multiple parties potentially motivated by different interests;

- Many of the Company's key assets are located in geographically remote regions that are sparsely populated. If current demographic trends continue in Russia, there is a risk – no matter how remote – that the Company may not have access to a large enough pool of skilled labor (both in engineering and financial disciplines), despite continued efforts by the Company to ensure that it offers an attractive workplace environment for its employees (Refer to the Corporate Social Responsibility section of the annual report for additional details about the Company's human resources policies);
- The Company relies on timely payments from its clients (both retail customers and industrial corporations) to ensure a steady stream of revenues. However, due in part to the economic crisis that began during H2 2008 and disproportionately affected certain sectors of the Russian economy (notably metallurgy, machinery and metal-working manufacturing sectors), there has been an increase in overdue accounts receivable (Refer

to the Financial Results Overview section of the annual report for additional details on this increase).

To decrease negative consequences of the crisis, including preventing an increase in accounts receivable (owed to the Company), in 2009 the Program of actions for protecting and increasing the Company's revenue was confirmed and realized. But, because of the underdeveloped Russian legal system (as discussed in detail above), it may prove highly difficult, time-consuming or costly to collect on these delinquent accounts. It should also be noted that if non-payments occur on a regulated contract that the Company does not have the right to terminate these contracts and must continue supplying the non-payer.

A high percentage of overdue accounts receivable may ultimately negatively affect the Company's operating margin; this may in turn impact the Company's valuation on the Exchanges where its securities are traded (both domestically and abroad).

Despite the significant risks that RusHydro faces (as outlined above) – in the short-, medium- and long-term – the Company's senior management team believes that the Company is well-positioned to tackle these challenges and successfully move forward with its comprehensive development program.

## IX. Business Review

### Production overview:

JSC RusHydro currently has total installed capacity of 25,423.5 MW (at its 19 generating assets and subsidiaries and dependent companies (SDCs)) – up from 24,372 MW in 2008 (a 4.3% increase).

This figure ranks the Company as the world's second largest hydro-power company (in terms of installed capacity), trailing only HydroQuebec, and the world's largest listed hydro-power producer. As part of its ongoing strategic development, JSC RusHydro plans to introduce new capacity. However, in the short-term, the Company intends to primarily focus on its extensive technical rehabilitation and modernization program (as discussed in the Development Priorities and Investment Program section of the Annual Report), as well as bringing the Sayano-Shushenskaya HPP back on line following the August 2009 accident.

During the reporting period, the Company's useful power output stood at 81,607 mln. kWh – an increase of 1,941 mln. kWh compared to the previous year. This significant increase can primarily be attributed to a portion of the technical rehabilitation and modernization program that was successfully introduced at the Volga-Kamskaya Cascade HPP.

However, despite the increase, actual 2009 numbers lagged behind the Company's planned yearly output by 0.33% (or 219 mln. kWh). One of the primary reasons contributing to the lack of plan fulfillment during the reporting period was the accident at the Company's Sayano-Shushenskaya HPP (more details on this accident and JSC RusHydro's actions to address the consequences of the accident and to bring the asset back to full operational capacity can be found in both the Corporate Social Responsibility and Development Priorities and the Investment Program sections of the Annual Report).

It should be noted that in addition to continuing to develop and make its core hydro-power production business more efficient, JSC RusHydro is continuing to look at other business development opportunities that would strengthen and diversify its portfolio, including:

- Continuing to develop its existing in-house design and engineering service capabilities, which would effectively reduce the Company's reliance on scarce outside consulting services. These services could also be marketed (as a potential revenue source) to third-party companies;
- Building up its own construction business (focused on the power sector), which would potentially fill a currently under-served market niche;

Both of these businesses would potentially benefit the Company's bottom-line by cutting (and/or controlling) costs and by creating an additional revenue stream (although relative to the size of the core business' revenue, the magnitude of this revenue source would be relatively limited).

The most important new business – which has come about due to ongoing comprehensive Russian power sector reform – is the Company's retail sales business. Additional information about this can be found later in this section of the Annual Report.

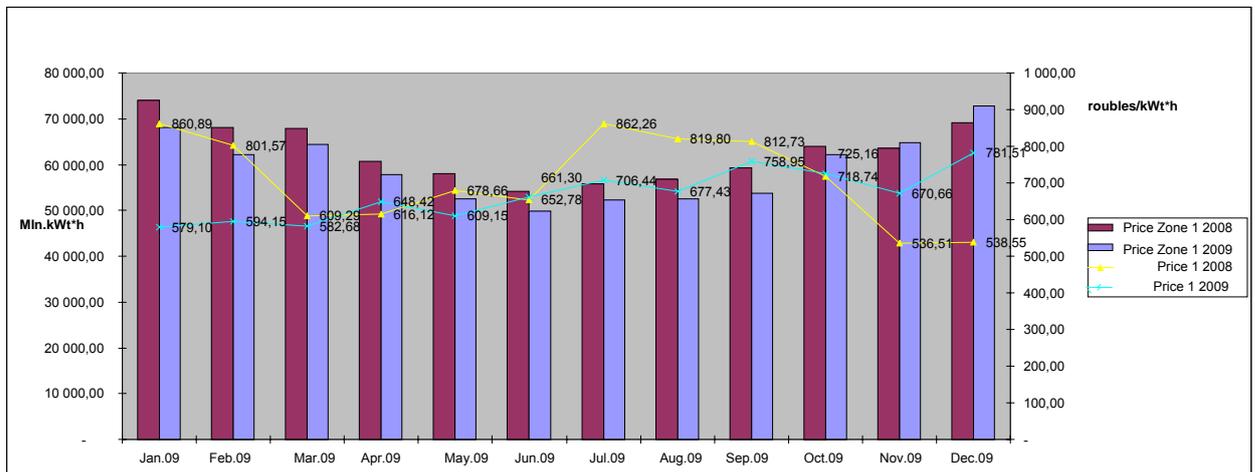
## Sales Results:

The general economic slowdown (which initially started in H2 2008) led to decreased electrical consumption. During the first nine months of 2009, electrical consumption fell 7% for the entire Russian Unified Energy System. However, some positive trends were seen at the end of 2009, including an increase in planned electrical consumption during Q4 across all Russian energy zones. This can primarily be explained by the low “base effect” – which references the sharp drop off in energy consumption as a result of the serious global economic crisis that occurred at the end of 2008. The decline in growth rates for electricity usage is primarily due to the reduced electricity needs of major industrial consumers (principal among these being mining and metallurgy enterprises concentrated in the Siberian Region of Russia (the Siberian Region has traditionally been an energy-intensive region of Russia). The above-mentioned decline led to decreased prices on the day-ahead market. The Resolution on a multi-stage (quarterly) increase in wholesale prices for natural gas – which is the primary fuel source for power plants in Zone 1 of the wholesale market for electricity and capacity – also impacted prices.

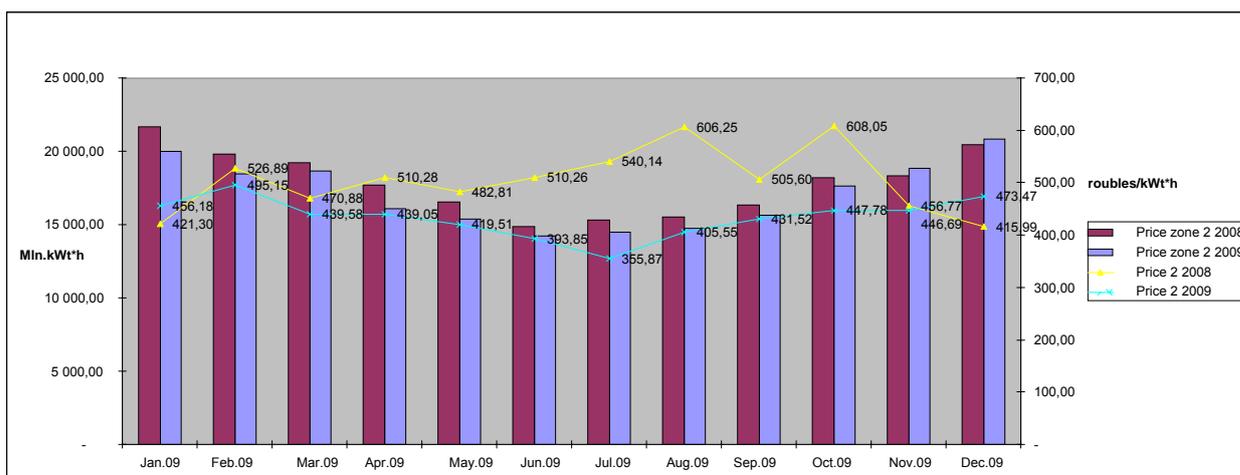
The overall drop in prices on the day-ahead market was approximately 6.0% in the European energy zone and roughly 12.5% in the Siberian zone. This fall off was primarily demand-driven due to both macro- and micro-economic factors. Furthermore, at the beginning of the reporting period, the drop was significant – in part due to higher quarterly prices for gas. Toward the end of the year, the delay had been effectively reduced.

Production decreases, however, did not occur, in large part because HPP loads are a well-accepted priority in the wholesale electricity and capacity model. However, due to the global economic crisis, power production at thermal power stations decreased significantly during the reporting period.

### *Dynamics of power consumption and price changes on the day-ahead market in the first pricing zone*



*Dynamics of power consumption and price changes on the day-ahead market in the second pricing zone*



The significant 7.4% increase in 2009 revenue as compared to 2008 can largely be explained by the following factors:

1. A 2.2% increase in useful output in 2009 (compared with 2008);
2. An increase in the average sale price for electric power due to:
  - a. A 39% increase, during the reporting period, in the adjustable tariff, including: an increase in the special investment component (SIC) from RUR 16.8 bln. to RUR 26.0 bln. for the year;
  - b. Sales on the power market via unregulated contracts at a price above the established tariff rate (set by the Russian Federal Tariff Service);
  - c. An increase in the volume and cost of electricity sold at free market prices, because of an increase from 20 – 40% in the liberalization rate during the reporting period;
  - d. Production at the Company's Zeyskaya and Bureyskaya HPPs exceeded planned production levels, which generated RUR 542 mln. in additional corporate revenue;
  - e. Higher volumes of electricity being sold at free market prices on the unregulated market (these prices, on the whole, were higher than regulated prices determined by the tariff set by the Russian Federal Tariff Service);
  - f. The conclusion of new sales agreements, which generated an additional RUR 453 mln. in revenue;
  - g. Increased production at the Volga-Kamskaya Cascade HPP (as a result of the technical rehabilitation and modernization program), which led to increased sales and higher revenue in the amount of RUR 151 mln.;
  - h. Tightening sanctions applied to companies and organizations that fail to pay for services and/or power received.

There was also a significant push to introduce innovative measures to enhance payment discipline on both the wholesale and retail power markets during the reporting period.

Principal reasons for the drop in expenditures on purchases:

1. Lower purchased volumes on the day-ahead market under regulated contracts, as a result of an increase in the free market share;
2. Reduced prices on the day-ahead market due to a fall off in consumption through the entire Russian Unified Energy System.

### **Power Market:**

During the reporting period, the power market did not undergo any significant changes. The transition period for the new power market model – which became effective as of July 1<sup>st</sup>, 2008 – continues to govern the sector.

Within the framework of the transition period, the basic mechanisms for obtaining additional positive economic outcomes for JSC RusHydro include:

1. Generating additional power sales from the Company's existing operating HPPs under free bilateral agreements for buying and selling power and capacity. During the reporting period, these sales generated a further RUR 391 mln. in revenue;
2. The sale of "new" power, which occurred as a result of the extensive technical rehabilitation and modernization work carried out at the Company's Volga-Kamskaya Cascade. This program and its results generated RUR 151 mln. in 2009.

Of the Company's 2009 revenue, 52.4% came from electricity sales and 43.9% came from capacity sales, which compares to 2008 percentages of 61% and 34.3%, respectively. Compared with a loss in 2008, during 2009, the Company recorded a net profit of RUR 31,184 bln.

Given the current transition period within the Russian power sector – which includes the existence of both a regulated market (where prices are set by the Russian Tariff Service) and an unregulated, free market – JSC RusHydro's sales (as well as those of other key domestic market players) are completed through a wide variety of different types of agreements, including:

- Regulated agreements to buy and sell capacity (based on tariffs approved by the Russian Federal Tariff Service);
- Adjustable agreements to buy and sell power at tariffs set by the Federal Tariff Services;
- Agreements to buy and sell power produced either at atomic power plants or at hydro-power plant stations at tariffs that are again determined by the Russian Federal Tariff Service;
- Free bilateral agreements to buy and sell power at prices determined by participants to said agreement, as well as free bilateral agreements to buy and sell capacity;
- Agreements to buy and sell power on the retail market, as long as these agreements comply with regulatory requirements and mandates established by the regional authority

which establishes tariff rates. These sales may be either at the tariff rate or at a free market price;

- Commission agreement to sell capacity through a competitive bidding process;
- Commission agreement to sell energy through competitive bidding on the day-ahead market;
- Commission agreement to sell energy as a result of competitive bidding for the balancing of systems (in other words, the sale of energy that deviates from equilibrium prices).

**Additional:**

In addition to the above-mentioned actions, the Company made a concerted effort in 2009 to increase the efficiency and effectiveness of its marketable activities. These efforts were fully aligned with JSC RusHydro's 2008 program "Measures for maintaining and increasing JSC RusHydro's income."

Key components of this program include:

- Decreasing the Company's risks related to and exposure under current market conditions;
- Fully carrying out all 2009 planned activities that are related to profitable portions of the Company's detailed business plan;
- Preserving a stable financial position for the Company and its key operating subsidiaries and dependent companies;
- Generating and receiving addition revenue via upgrading the effectiveness of the Company's marketable activities.

As a result of carrying out the above-mentioned program, the following results have been achieved:

1. Bilateral agreements for buying and selling electricity and capacity have been concluded with reliable contractors, who have been designated as such by analyzing these contractors' payment discipline/reliability during previous periods. As a result of concluding these agreements, JSC RusHydro realized an additional profit of RUR 453 mln. during the reporting period. In addition to this, the Company obtained an additional RUR 151 mln. from selling "new" power generated via the technical rehabilitation and modernization program at the Company's Volga-Kamskaya Cascade HPP. The Company also received RUR 542 mln. from over-balance production at the Zeyskaya and Bureyskaya HPPs. Therefore, the cumulative effect of realizing these measures was RUR 1,146 mln. in increased revenues during the reporting period;
2. Numerous normative-legal changes have been introduced in the power sector to encourage increased payment discipline on both the wholesale and retail markets; there has also been a stiffening of sanctions imposed for the non-fulfillment of payment obligations;

3. Additional changes (normative and legal) have been introduced in the Company's internal documents to upgrade the effectiveness of interactions between the parent company and its subsidiaries and dependent companies (SDCs).

During the reporting period, JSC RusHydro did not successfully execute any export sales. However, within the framework of realizing export sales to China by effectively utilizing the Company's Far Eastern HPPs (the Zeyskaya and Bureyskaya HPPs), additional over-balance production in the amount of 1.4 bln. kWh occurred. This additional production generated revenues totaling RUR 542 mln. for the Company.

**Note.** The volume of exports delivered to China may differ from the volume of additional production at the Company's Far Eastern HPPs (which are legally subsidiaries of JSC RusHydro). JSC RusHydro does not have detailed information on the volume of these sales, due to the fact that all exports are carried out by JSC INTER RAO UES.

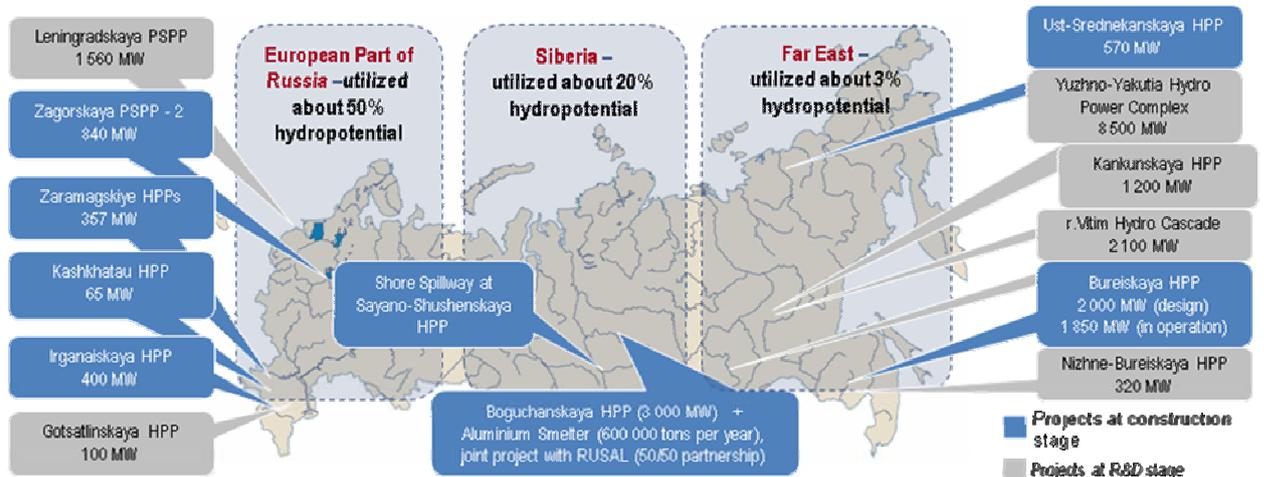
## X. Development Priorities and the Investment Program

The Company's investment program and all decisions made as part of the program are based on the following key principles:

1. Ensuring that investment decisions and all projects are fully aligned with legal regulations, construction norms and requirements and ecological standards;
2. Abiding by the sequence of stages and steps for implementing investment projects;
3. Guaranteeing that investment decisions and select projects meet profitability and risk management guidelines established by the Company's Board of Directors;
4. Carrying out cost-benefit analysis of alternative investment solutions at the end of each stage of the investment program, as well as when key parameters change;
5. Finding appropriate financing sources to cover individual investment projects (and the program as a whole).

Based on the Company's corporate governance system, all final investment decisions are made by the Company's Board of Directors – with appropriate input from relevant government organizations and ministries.

The map below highlights some of the Company's key investment projects for 2009 – 2011 – illustrating RusHydro's broad coverage of Russia.



JSC RusHydro's initial 2009 investment program received preliminary approval from the Company's Board of Directors on January 23<sup>rd</sup>, 2009. The program envisaged investment totaling RUR 79.5 bln. The Program also calls for the installation of 145 MW of new capacity.

Subsequently, the Program was amended and confirmed by the Company's Board of Directors on May 18<sup>th</sup>, 2009. The total volume of the investment program was set at RUR 64.9 bln. The program calls for the introduction of an additional 74 MW of capacity. The investment program will be financed via the following key sources:

- Own funds (including profit, target investment component, amortization, other own funds, including reimbursed VAT) – RUR 27.4 bln.;
- Funds received by JSC RusHydro from JSC RAO UES of Russia in connection with re-organization (including funds received from the State for the sale of shares of JSC RusHydro and its subsidiaries and dependent companies) – RUR 6.7 bln.;
- External investor funds – RUR 10.4 bln.

The investment program was broadly focused on the following categories:

1. Technical rehabilitation and modernization program – RUR 12.6 bln.;
2. Objects under construction – RUR 49.6 bln.;
3. Projects in the design stage, including design and exploration work – RUR 0.6 bln.;
4. Projects in the design stage – RUR 0.6 bln.;
5. Renewable energy source projects – RUR 0.8 bln.

The actual volume of 2009 investments was RUR 54.3 bln. and an additional 71 MW of installed capacity was added during the reporting period.

1. **Technical rehabilitation and modernization program**: The actual volume of financing for this program during 2009 was RUR 8.6 bln. – or RUR 4 bln. less than the approved plan (the Company's Investment Program performance on technical rehabilitation and modernization was: 68%);
2. **Objects under construction**: The actual volume of financing for objects under construction in 2009 was RUR 36.6 bln. – which is RUR 13 bln. less than plan (the Company's Investment Program performance on objects under construction was 74 %);
3. **Projects in the design stage, including design and exploration work**: The actual volume of financing for projects in the design stage, including design and exploration work in 2009 was RUR 0.7 bln. – RUR 0.03 bln. more than plan (the Company's Investment Program performance on projects in the design stage, including design and exploration work was: 105%);
4. **Renewable energy projects**: The actual volume of financing for renewable energy projects was RUR 0.7 bln. – RUR 0.02 bln. less than plan (the Company's Investment Program performance on renewable energy projects was – 97 %);
5. **Planned objects**: The actual volume of financing for planned objects in 2009 was RUR 0.4 bln. – RUR 0.2 bln. less than plan (the Company's Investment Program performance on planned objects was:71%).

During H1 2009, the Company's actual investment program closely mirrored planned figures; investment during the first six months of 2009 totaled RUR 19.1 bln. – a 98% fulfillment rate.

However, the serious accident at the Company's Sayano-Shushenskaya HPP in August 2009 required the Company to drastically re-evaluate its existing investment program – both for the reporting period and for the near- and medium-term (particularly for the 2010 – 2012 period).

On September 15<sup>th</sup>, 2009, the Project of the 2010 Investment Program and 2011-2012 Forecast Indicators, with changes made as a result of coordination with relevant ministries and departments, and also in connection with the SS HPP accident, was approved by the Government of the Russian Federation. The total amount of financing, provided for in the 2010 Investment Program, was RUR 97,057 bln.

**Basic priorities of JSC RusHydro's 2010 Investment Program include:**

- Ensuring reliable and zero-accident operating rates at existing and under construction sites;
- Restoring the Sayano-Shushenskaya HPP (commissioning hydro-units №3-6 in 2010);
- Putting into operation the first stage of the SS HPP coastal spillway not later than June 1<sup>st</sup>, 2010;
- Ensuring that additional capacity planned for 2010 occurs in full volume, including from: the technical rehabilitation and modernization program (42 MW), the Kashhatau HPP (65 MW), the Egorlykская HPP-2 (14 MW) and the new binary power-unit (2.5 MW).

The primary sources for financing the 2010 Investment Program are:

- Own funds (profit, including the target investment component, amortization, and other own funds, including reimbursed VAT) – RUR 35.151 bln.;
- Funds received by JSC RusHydro from JSC RAO UES of Russia in connection with re-organization (including funds received from the sale of additional shares of JSC RusHydro and its subsidiaries and dependent companies to the Russian Federation) – RUR 10.129 bln.;
- External investor funds – RUR 18.715 bln.

**The general principles of distributing financing sources between investment projects are as follows:**

- Amortization funds are channeled in full to financing the technical rehabilitation and modernization program;
- Target financing sources (target investment component and budgetary funds) are used to finance priority under construction objects;
- External investor funds are distributed according to the concluded agreements about co-financing.

## XI. Financial Results

This section of the Annual Report is prepared based on consolidated financial reports of the RusHydro Group (later, the Group), in accordance with International Financial Reporting Standards (IFRS).

The most important event during 2009 that affected the Group's financial performance was the global financial crisis.

### *The global financial crisis*

The global financial crisis had a serious effect on the Russian economy since the middle of 2008. The Group's borrowers and debtors were negatively impacted by the financial and economic situation, which in turn affected their ability to repay amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

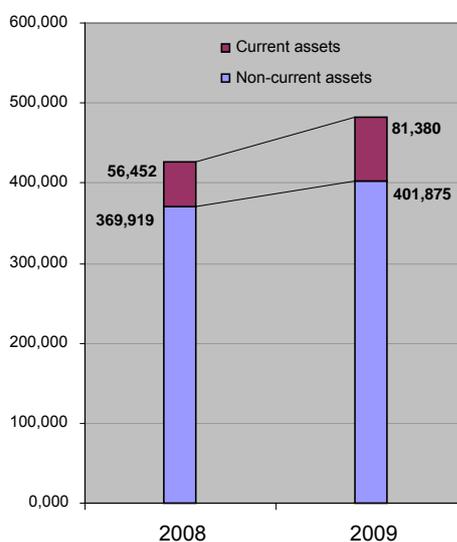
Access to financial resources – including non-domestic funds – was significantly reduced after August 2008. The prevailing financial market conditions can also have a negative effect on the Group's ability to attract new borrowings and to refinance existing credits and loans at attractive conditions that were available in earlier periods.

However, despite a challenging year and the financial crisis, the Group achieved improvements in its basic financial indicators during the reporting period.

### Statement of Financial Position

As a whole, the Group's joint total assets grew 13.3% during the reporting period – standing at RUR 483,255 mln. as of December 31<sup>st</sup>, 2009 compared with RUR 426,371 mln. as of December 31<sup>st</sup>, 2008.

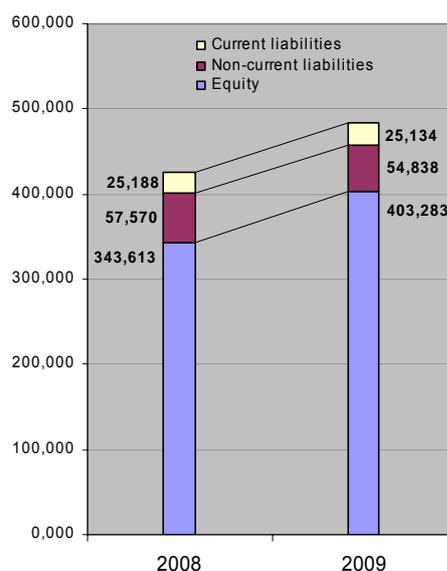
**2008-2009 Group asset structure, RUR mln.**



As before, the majority of assets are made up of property, plant and equipment (RUR 354,847 mln., or 73.4% of total assets). However, this share fell 5.7% compared with 2008. This decrease can primarily be attributed to an almost two-fold increase in cash and cash equivalents – from RUR 24,838 mln. to RUR 48,152 mln. as of the end of 2009.

The Group's financial position continues to be stable and improved during 2009. Total equity in 2009 equals 83.5% of total equity and liabilities compared to 80.6% in 2008. The Group's equity increased from RUR 343,613 mln. in 2008 to RUR 403,283 mln. in 2009. The increase in equity amounted to RUR 59,670 mln. (a 17.4% increase).

### 2008-2009 Group equity and liabilities structure, RUR mln.



The growth in equity can mainly be explained by two factors:

1. Additional share issuances for 24,681 mln. ordinary shares with a par value of RUR 1.00 per share. As a result, share capital increased by RUR 24,681 mln. from RUR 245,014 mln. in 2008 to RUR 269,695 mln. in 2009;
2. Profit for the period in the amount of RUR 31,184 mln.

As a result, the total liabilities of the Group in 2009 decreased by RUR 2,786 mln. (a 3.4% drop), and stood at RUR 79,972 mln. as of December 31<sup>st</sup>, 2009. Current liabilities remained practically unchanged at RUR 25,134 mln., whereas non-current liabilities fell by 4.7% to RUR 54,838 mln.

The ratio of total liabilities to net assets fell from 24.1 % as at 31 December 2008 to 19.8 % as at 31 December 2009.

#### *Revaluation as of December 31<sup>st</sup>, 2009*

As of December 31<sup>st</sup>, 2009, the Group did not perform a revaluation of property, plant and equipment considering that the carrying amount does not differ materially from the fair value at the end of the reporting period. The Group last performed a revaluation as at 31 December 2008.

## Accounts receivable

The global financial crisis had an effect on the Group's activities and influenced the ability of electricity and capacity consumers to repay the amounts owed. As a result, a provision for impairment of accounts receivable in the amount of RUR 920 mln (net of reversal of impairment) was made in 2009. Additionally, the Group's past due but not impaired accounts receivable rose slightly from RUR 2,274 mln. as of December 31<sup>st</sup>, 2008 to RUR 2,499 mln. as of December 31<sup>st</sup>, 2009 (a 9.9% increase). These accounts receivable relate to customers without a recent history of default.

### 2008-2009 Group accounts receivable structure, RUR mln.



\* Financial assets include drafts and accounts receivable net of provision for impairment and promissory notes.

A major part of other accounts receivable includes the insurance compensation in the amount of RUR 6,046 mln. in connection with the accident at the Sayano-Shushenskaya HPP receivable from JSC IC ROSNO.

## Accounts payable

For the reporting period, the Group's accounts payable and accruals increased 17.6% and stood at RUR 19,102 mln.

RUR mln.	2008	2009
Trade payables	4,671	8,602
Derivative financial instruments	50	1,164
Dividends payable	21	19
<b>Total financial obligations</b>	<b>4,742</b>	<b>9,785</b>
Accounts payable in respect to share issue	6,000	4,330
Advances received	1,432	1,253
Settlements with personnel	863	885
Other accounts payable	3,203	2,849
<b>Total accounts payable and accruals</b>	<b>16,240</b>	<b>19,102</b>

As of December 31<sup>st</sup>, 2009, the Group had an obligation to the Russian Federation (presented by the Russian State Property Agency) in the amount of RUR 4,330 mln. due to a prepayment in respect of the additional issue of 19,000,000,000 shares. This issue was approved by an

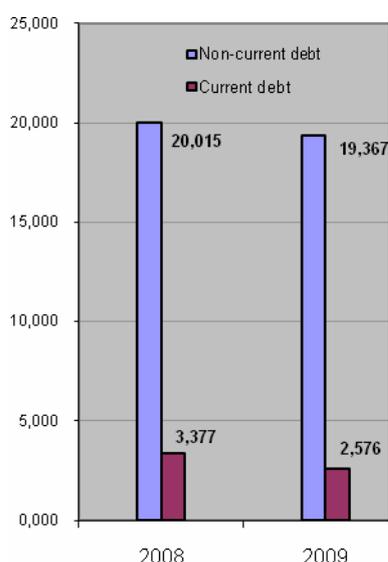
Extraordinary General Meeting of the Company's shareholders on June 10<sup>th</sup>, 2009 but not registered as at 31 December 2009.

As of December 31<sup>st</sup>, 2009, the majority of other accounts payable related to purpose-driven financing granted by the Government of the Russian Federation (in the person of the Federal Agency for Power Engineering) in the amount of RUR 1,590 mln. in exchange for a portion of JSC Ust-Srednekanskaya HPP's shares.

#### *Current and non-current debt*

In 2009, the Group's non-current and current debts decreased by RUR 648 mln. and RUR 801 mln., respectively.

#### **2008- 2009 Group current and non-current debt, RUR mln.**



As of December 31<sup>st</sup>, 2009, the Group's principle debt holders were as follows:

- European Bank for Reconstruction and Development. The funds were used to finance a program of upgrading and re-equipping HPPs of the Volzhskaya-Kamskaya Cascade;
- Bond holders. In July 2006, JSC HydroWGC Management Company issued bonds in a public offering on the MICEX Stock Exchange. The bond issue proceeds are used to finance the completion of the Boguchanskaya HPP and the needs of the Group's subsidiaries;
- Morgan Stanley Bank International Ltd. The funds were intended to be used for financing capital expenditure projects in accordance with the Group's investment program;
- Municipal authority of the Kamchatka Region. The loan was received for the purpose of financing the construction of the Verhne-Mutnovskaya GeoES;
- CF Structured Products B.V. The funds were obtained to finance construction of the Cascade NChHPPs.

As of December 31<sup>st</sup>, 2009, all of the Group's current debt, and more than 84% of non-current debt, are ruble-denominated.

The Group is subject to certain covenants.

	2008	2009
Debt/Adjusted EBITDA*	0.69	0.42
EBITDA*/Interest expense	14.30	19.01
Long-term debt /Adjusted EBITDA*	0.59	0.37
Current assets/Current liabilities (current ratio)	2.24	3.24
Non-current debt/Equity	0.06	0.05

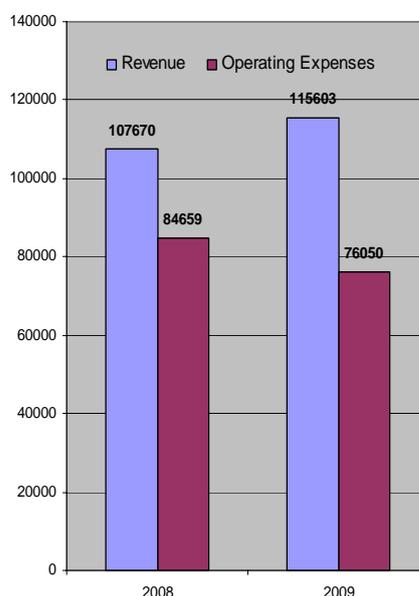
\* EBITDA is defined as earnings before the deduction of interest expense and financing items, income taxes, depreciation, non-cash impairment, disposal charges and insurance compensation

As shown in the table above, all the covenant ratios improved substantially during the year ended December 31<sup>st</sup>, 2009.

#### *Income statement*

The Group's revenue increased 7.4% in 2009 and stood at RUR 115,603 mln. for the year ended December 31<sup>st</sup>, 2009 (for the year ended December 31<sup>st</sup>, 2008: RUR 107,670 mln.).

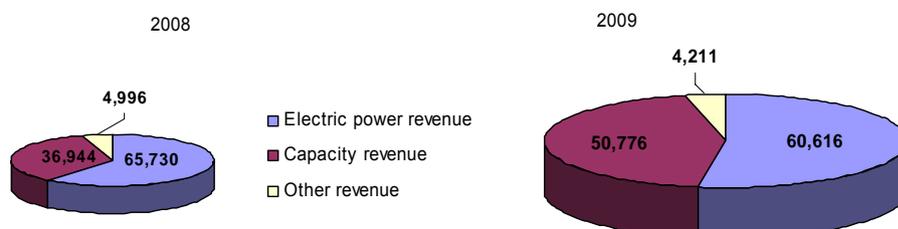
#### **2008-2009 Group revenue and operating expenses, RUR mln.**



Operating expenses decreased 10.2% – going from RUR 84,659 mln. to RUR 76,050 mln. As a result, in 2009, the Group received operating profit of RUR 39,553 mln. The Group's operating profit margin stood at 34.2%.

In 2008, 61% of total revenue related to electricity sales. In 2009, the structure of revenue changed: revenue from sales of capacity increased 37.4% and amounted to RUR 50,776 mln. for the year ended December 31<sup>st</sup>, 2009. Other revenue includes rendering of construction services, repairs and other services.

### 2008-2009 Group revenue structure from current activity, RUR mln.



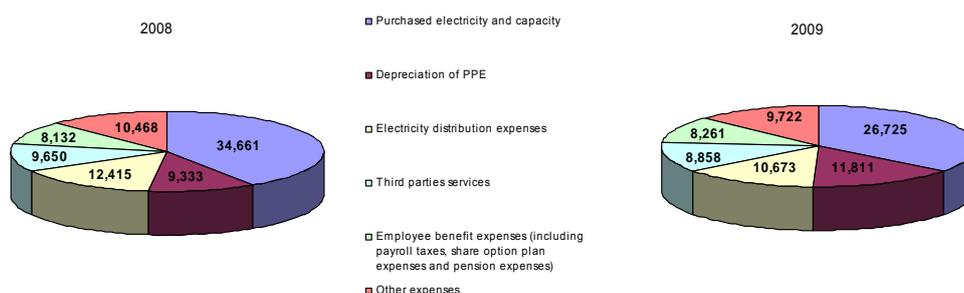
A significant portion of the Group's sales and purchases of electricity and capacity is carried out through commission agreements, which are concluded with the JSC Center of Financial Settlements (CFS) on the wholesale electricity and capacity market. The Group also sells significant volumes of electricity and capacity through the wholesale market under regulated agreements – with tariffs and volumes set by the Federal Service on Tariffs. The Company also conducts sales under bilateral unregulated agreements (for the purchase-sale of electricity and capacity) at non-regulated prices. Electricity and capacity are sold directly to both trading and industrial companies.

### Operating expenses

The Group's operating expenses decreased RUR 8,609 during the reporting period.

The drop-off was primarily due to a fall in the Group expenses for the purchase of electricity and capacity – a decrease of RUR 7,936 mln. As a result, expenditures on this category fell from 40.9% of operating expenses in 2008 to 35.1% in 2009.

### 2008-2009 Group operating expense structure , RUR mln.



In addition to purchases of electricity and capacity, during the reporting period, the Company decreased electricity distribution expenses by 14% due to reduction in sales of the Group's retailing subsidiaries and the Company was also able to diminish of the third party services by 8.2% compared with 2008. Employee benefit expenses remained almost the same (demonstrating an insignificant 1.6% increase). Depreciation of property, plant and equipment grew by 26.6%, principally as a result of the revaluation recognized as at 31 December 2008.

As a result of these movements, the Group's 2009 profit was RUR 31,184 mln. – compared with losses of RUR 19,481 mln. in 2008 (the 2008 reporting included “paper ” losses recognised as a result of property, plant and equipment impairment). The Group's profit margin (in net profit) was 27%.

RUR mln.	2008 (adjusted)*	2008	2009
Operating profit / (loss)	23 011	(9 542)	39 553
Profit / (loss) before income tax	19 985	(19 032)	38 923
Profit / (loss) for the period	19 536	(19 481)	31 184
Earnings per ordinary share		(0,0925)	0,1229

\* Profit / (loss) for the period adjusted for impairment of property, plant and equipment and impairment of available-for-sale financial assets

From 2008 to 2009, EBITDA\* increased more than 1.5 times – growing from RUR 33,735 mln. to RUR 52,182 mln.

\* EBITDA is defined as earnings before the deduction of interest expense and financing items, income taxes, depreciation, non-cash impairment, disposal charges and insurance compensation

There was also an improvement in other indices, which indicates improved effectiveness of the Group's control over its assets and capital.

Indices	2008	2009
Operating profit margin, %	(8.9)	34.2
Return on assets (ROA), adjusted*, %	5.8	7.3
Return on equity (ROE), adjusted*, %	6.7	8.4
Adjusted EBITDA margin, %	31.3	45.1

\* Adjusted for impairment of property, plant and equipment and impairment of available-for-sale financial assets

#### Statement of cash flow

Net cash flow generated by operating activities increased from RUR 27,621 mln. for the year ended December 31<sup>st</sup>, 2008 to RUR 40,725 mln. for the year ended December 31<sup>st</sup>, 2009.

Net cash used in investment activities has decreased insignificantly from RUR 33,023 mln. for the year ended December 31<sup>st</sup>, 2008 to RUR 32,604 mln. for the year ended December 31<sup>st</sup>, 2009. The cash cost of new property, plant and equipment was RUR 31,896 mln. in 2009.

Net cash flow generated by financing activities decreased from RUR 21,973 mln. for the year ended December 31<sup>st</sup>, 2008 to RUR 15,193 mln. for the year ended December 31<sup>st</sup>, 2009. The increase in net cash generated by financing activities of the Group was mainly due to share issues in 2009 in the amount of RUR 23,032 mln, out of which RUR 4,000 mln relate to purchase of treasury shares.

As a result of these increments, the Group's cash and cash equivalents increased and reached RUR 23,314 mln. in 2009 compared with RUR 16,571 mln. in 2008.

RUR mln.	2008	2009
Net cash generated by operating activities	27,621	40,725
Net cash used in investing activities	(33,023)	(32,604)
Net cash generated by financing activities	21,973	15,193
Increase in cash and cash equivalents	16,571	23,314

The Group has a stable financial position with cash and cash equivalents standing at RUR 48,152 mln. (which exceeds its current liabilities of RUR 25,134 mln.). Cash equivalents held as of December 31<sup>st</sup>, 2009 and December 31<sup>st</sup>, 2008 comprised short-term highly liquid investments (bank deposits and short-term bank promissory notes) with original maturities of three months or less.

Cash and cash equivalents balances denominated in USD currency as of December 31<sup>st</sup>, 2009 were RUR 320 mln. (December 31<sup>st</sup>, 2008: RUR 1 mln.). Cash and cash equivalents balances denominated in Euro currency were RUR 1,258 mln. as of December 31<sup>st</sup>, 2009 (December 31<sup>st</sup>, 2008: RUR 13 mln.).

#### *Credit ratings*

To ensure that it provides its stakeholders with comprehensive and maximally objective information, the Company receives credit ratings from the three leading global credit rating agencies.

During the reporting period, the following changes occurred in the Company's credit ratings.

On February 4<sup>th</sup>, 2009, against a backdrop of a reduction in Russia's national credit rating, international rating agency Fitch Ratings reduced the Company's credit ratings. Its long-term rating in foreign currency was dropped from "BBB-" to "BB+." On the national scale, RusHydro's rating was lowered from "AA+ (rus)" to "AA (rus)."

On December 22<sup>nd</sup>, 2009, international credit rating agency Standard & Poor's decreased the Company's long-term credit rating from "BBB-" to "BB+." Ratings on the national scale dropped from "ruAAA" to "ruAA+."

Credit ratings as of December 31<sup>st</sup>, 2009

On the international scale:

Ratings agency	Standard&Poor's	Moody's	Fitch
Rating	BB+	Baa3	BB+

On the national scale:

Ratings agency	Standard&Poor's	Moody's	Fitch
Rating	ruAA+	Aaa.ru	AA (rus)

## XII. Relevant Shareholder Information

### *Charter capital<sup>1</sup>*

As of December 31<sup>st</sup>, 2009, JSC RusHydro's authorized charter capital was comprised of 269,695,430,802 ordinary shares with a par value of one ruble per share (State registration number for the issue 1-01-55038-E dated February 22<sup>nd</sup>, 2005). The Company has not issued any privileged shares.

Since the Company was founded in 2004, RusHydro's authorized charter capital has increased as the result of additional ordinary share issues. Funds generated from these issues have been directed at financing the Company's investment program, as well as for converting shares of consolidated companies that have been incorporated under the RusHydro umbrella.

### The Company's Regulated Capital from 2004 till 2009:

Date	Charter capital size, RUR	Placement method
<b>26.12.2004</b>	103,951,322,702	<b>At establishment</b>
<b>01.01.2007</b>	140,954,759,856	Increase of charter capital for the purpose of financing the Company's investment program, a closed subscription in favor of JSC RAO UES of Russia.
<b>01.01.2008</b>	156,864,373,776	Increase of charter capital for the purpose of financing the Company's investment program, a closed subscription in favor of JSC RAO UES of Russia, the Russian Federation and the operator of the Company's option program
<b>09.01.2008</b>	195,860,496,735	Conversion of shares of the consolidated companies into shares of JSC RusHydro
<b>24.07.2008</b>	245,014,059,191	
<b>02.04.2009</b>	255,014,018,667	Increase of charter capital; Open subscription
<b>12.10.2009</b>	269,695,430,802	Increase of charter capital; Open subscription

### Main information about 2009 additional share issues that were successfully placed:

	<b>1-01-55038-E-036D</b>	<b>1-01-55038-E-037D</b>
Date of decision to increase authorized capital	November 17 <sup>th</sup> , 2008	November 17 <sup>th</sup> , 2008
Total value of the issue at par value, RUR	RUR 10,000,000,000	RUR 16,000,000,000

<sup>1</sup> Information on regulated capital does not take into account 3,765,217,391 additional shares that were placed via pre-emptive rights as part of the additional share issue № 1-01-55038-E-038D from November 19<sup>th</sup>, 2009. State registration of the Report detailing results of this issue has not been registered as of yet.

Category (type) and form of the share issue	Non-documentary, common ordinary shares	Non-documentary, common ordinary shares
Placement method	Open subscription	Open subscription
Payment form for shares	Cash assets	Cash assets
Placement price	RUR 1 per share	RUR 1 per share
Pre-emptive rights	Provides pre-emptive rights to all JSC RusHydro shareholders	Provides pre-emptive rights to all JSC RusHydro shareholders
Start date for placement	December 19 <sup>th</sup> , 2008	June 2 <sup>nd</sup> , 2009
Finish date for placement	February 18 <sup>th</sup> , 2009	August 28 <sup>th</sup> , 2009
Actual volume of placed shares, based on par value	RUR 9,999,959,476 or 99.99959% of the issue	RUR 14,681,412,135 or 91.7588% of the issue

On June 10<sup>th</sup>, 2009, the Company's Annual General Meeting of shareholders adopted a decision to increase JSC RusHydro's charter capital in full accordance with the below-mentioned parameters. (As of December 31<sup>st</sup>, 2009, the placement of the Issue has not been completed):

Main parameters of the share issue:

Placement method	Open subscription
Category (type) of share	Common ordinary
Form	Non-documentary
Par value per share	RUR 1 (one)
Number of additional shares, number	19,000,000,000 (nineteen billion)
Total value of the issue at par value, RUR	RUR 19,000,000,000 (nineteen billion)
Payment form for shares	1) Cash assets; 2) Non-monetary funds, according to the decision of the share issue
Placement price for an additional ordinary common share	RUR 1 and 15 kopecks per share
Start date for placement	December 12 <sup>th</sup> , 2009
Finish date for placement	September 21 <sup>st</sup> , 2010

*Current shareholder structure*

The owners of securities	Portion of regulated capital, as of:	
	January 1 <sup>st</sup> , 2009	December 31 <sup>st</sup> , 2009
Federal property	60.37	60.38
Minority shareholders	39.63	39.62
including DR holders	1.55	8.08
Total number of shareholders	312,435	311,698

*c. Securities on the market*

Since 2008, JSC RusHydro's shares have been traded on both the Russian Moscow Interbank Currency Exchange (MICEX) Stock Exchange and the Russian Trading System (RTS) Stock Exchange. Beginning in August 2008, the Company's shares were included in both Exchanges' "A1" quotation list.

In 2009, the Company's shares corresponded fully with all liquidity criteria established by the Russian FSFM – which regulates the Russian securities market – and thus, RusHydro shares were included in MICEX Top 10 index – this index indicates the ten most liquid securities trading on the market.

#### JSC RusHydro's shares on major trading platforms in 2009

Stock Exchange	Ticker Symbol	Currency	Price			Trading volume		Total number of transactions
			max	min	last	number	monetary unit	number
RTS Classic	HYDR	USD	0.045	0.0148	0.0377	2.8 bln.	91 mln.	2,319
RTS Standard <sup>2</sup>	HYDRS	RUR	1.208	1.005	1.155	66 mln.	74 mln.	699
MICEX	HYDR	RUR	1.434	0.507	1.138	143 bln.	149 bln.	1,717,214
LSE	HYDR	USD	4.31	3.29	3.94	212.6 mln.	783.9 mln.	22,673

The volume of RusHydro shares traded on the MICEX Stock Exchange increased five-fold compared with 2008, and during the same period, the number of transactions went up three times.

The Company's shares are included in all basic Russian fund indices – the RTS Index and the MICEX Index. RusHydro shares are also included in sector (power)- specific indices: the RTS Electric Utilities (EU) Index and the MICEX Power (PWR) Index. Moreover, the Company's shares have also been included in two foreign indices: MSCI Barra Russia and MSCI Barra Emerging Markets.

During H1 2009, movement in the Company's share price was primarily driven by macro-economic factors that were affecting the entire Russian stock market. These macro- factors included: increased demand for raw materials following the global economic crisis, a re-animation of the global credit market, renewed inflow of direct and portfolio investments, increased money supply and a strengthened ruble. The Company's shares outperformed the market as a whole, as well as the indices that measure the performance of its peer group companies (the power sector). In addition to macro-economic factors, sector- and Company-specific factors contributed to RusHydro's strong share price performance, including: increased demand for power and innovative measures taken by the Company to proactively address the economic crisis, as well as good corporate financial and operating results.

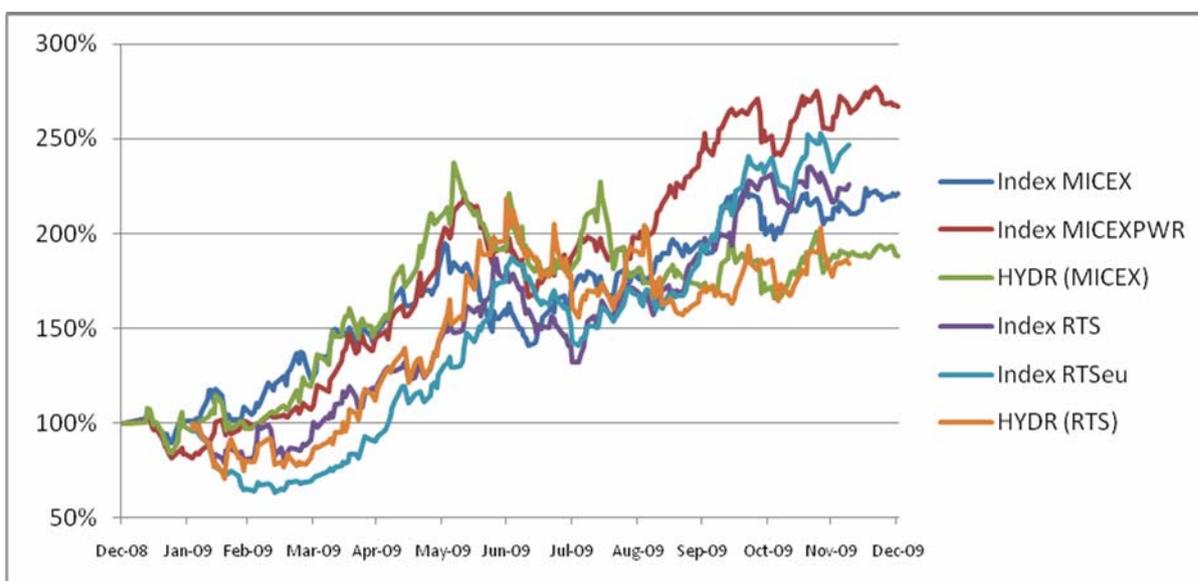
The Sayano-Shushenskaya HPP accident, which occurred in August 2009, had a negative effect on the Company's share price, and following the accident, trading of the Company's shares was suspended for several days on both Russian exchanges. A series of timely and correct actions by the Russian Government, as well as by the Company's management team, helped liquidate the accident and its consequences. These measures, coupled with the subsequent launch of renovation programs at the HPP, enabled the Company to successfully double its market capitalization (compared with 2008) by the end of 2009.

<sup>2</sup> Trading of the Company's shares on the RTS Standard market started August 27<sup>th</sup>, 2009.

JSC RusHydro's market capitalization:

	<b>December 31<sup>st</sup>, 2008</b>	<b>December 31<sup>st</sup>, 2009</b>
RTS Classic	USD 5,120,793,837	USD 10,167,517,741
MICEX	RUR 147,988,491,751	RUR 306,913,400,253

Dynamics of changes in JSC RusHydro's share price dynamics compared with the RTS and MICEX Index, as well as for the RTS and MICEX power sector indices:



### *Depository Receipts*

The depository receipt is a derivative financial instrument that circulates outside the country where the issuer is registered and carries property rights to a certain number of the issuer's underlying shares.

In June 2008, JSC RusHydro launched its global depository receipt (GDR) program under Reg. S (Regulation S) and Rule 144A. The Bank of New York Mellon acts as the depository bank of record for the Program. Each depository receipt represents 100 ordinary shares of JSC RusHydro.

### *Description of the Company's depository receipt program:*

Depository bank:	<b>BNY Mellon</b>
Ratio:	<b>1 DR = 100 ordinary shares</b>
Ticker symbol:	<b>HYDR</b>
CUSIP number (GDR 144A):	<b>466294204</b>
CUSIP number (Level 1 ADR)*:	<b>466294105</b>
Program launch date:	
144A GDR:	<b>June 17<sup>th</sup>, 2008</b>
Level 1 ADR:	<b>August 7<sup>th</sup>, 2009</b>
Trading platforms:	<b>London Stock Exchange (Main Market – IOB)</b> <b>OTC (ADR only)</b> <b>Portal</b>
Maximum program size, (number of DRs):	<b>375,000,000</b>
Program size as of December 31 <sup>st</sup> , 2009, % of authorized capital	<b>8.08%</b>

On July 6<sup>th</sup>, 2009, trading of the Company's DRs was launched on the London Stock Exchange's (LSE) Main Market in the International Order Book (IOB) regulated segment.

On August 7<sup>th</sup>, 2009, JSC RusHydro launched a Level One American Depositary Receipt (ADR) program. On the same day, the Company announced that it would convert all Rule S GDRs into ADRs. Within the framework of the new program, each ADR represents 100 ordinary shares of the Company. As part of the process of launching the new program and converting the existing GDRs, Rule S GDRs were removed from the LSE quotation list and were cancelled. GDR holders received the appropriate number of ADRs, which were included in the LSE quotation list at the moment of the Program's launch.

Thus, the Company's depository receipts are now traded on both the London Stock Exchange's Main Market and the United States' OTC market – giving American investors, who were previously not able to purchase the Company's shares, an opportunity to invest in JSC RusHydro.

## XIII. Corporate Governance

JSC RusHydro is a public company whose shares are traded on Russia's largest exchange platforms – the RTS and MICEX Stock Exchanges – as well as on the London Stock Exchange (LSE) – as part of the International Order Book of the Main Market. The Company has a well-developed corporate governance system based on conforming with Russian legislative norms and stock exchange requirements, as well as on meeting recognized Russian and world best practice corporate governance standards.

The basic corporate governance principles that guide JSC RusHydro are fixed in the Corporate Governance Code and are affirmed by the Company's Board of Directors.

The Company also strives to comply with the UK Combined Code on Corporate Governance.

The UK Combined Code on Corporate Governance clearly spells out best practice standards in the sphere of corporate governance. Companies that have a full share listing on the London Stock Exchange (LSE) are mandated to be in full compliance with the Combined Code. For other companies – such as JSC RusHydro – that have depositary receipt listings, the Combined Code offers an ideal standard for companies to aspire to.

During previous reporting periods, JSC RusHydro has not reported its compliance (or any related non-compliance) to the UK Combined Code on Corporate Governance in any official corporate publications (instead discussing its performance relative to its internal corporate governance code). However, this year, to underscore its strengthened commitment to being a corporate governance leader on the domestic Russian market, JSC RusHydro made an internal decision to report to the Combined Code.

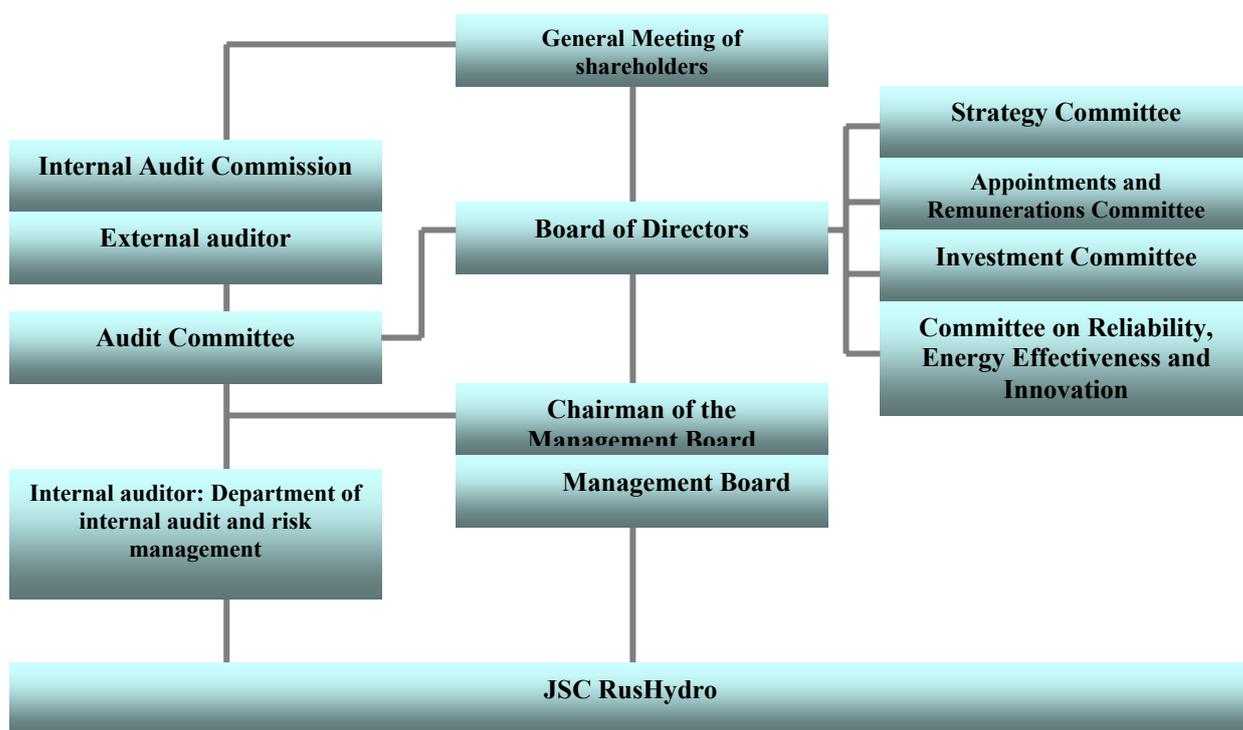
Below, the Company has outlined several key components of the Combined Code and has also indicated if it is currently in compliance (or not). As a whole, the Company tended to be in compliance with most mandates found in the Combined Code during the reporting period:

- An effective Board of Directors must exist, carrying collective responsibility for the success of the Company's activities: ***Complies***;
- A separation of power must exist between the Company's management team and the Board of Directors. No one person shall have unlimited decision-making powers: ***Complies***;
- The composition of the Board of Directors must be balanced between executive and non-executive (particularly independent) directors so that no individual or group shall have sole decision-making power: ***Does not comply***;
- There must exist an official, transparent and well-documented procedure for electing new members of the Board of Directors: ***Complies***;
- Information in appropriate form and quantity must be provided to the Company's Board of Directors so that Board members can carry out their responsibilities. All members of the Board must receive initial information (basic background information) on the

Company's activities and this information and the members' qualifications must be updated on a regular basis: ***Complies***;

- On an annual basis, the Company's Board of Directors must conduct an official review of the effectiveness of its own actions, as well as for the activities of Board committees and individual directors: ***Does not comply (This requirement is not feasible in the Russian Federation)***;
- All members of the Board of Directors are subject to regular re-election, which depends on the adequacy of their work. The Board of Directors must plan for the regular turnover of new members of the Board: ***Complies***;
- Remuneration and compensation must be sufficient to attract, retain and motivate Directors who possess the skills necessary to successfully manage the Company. However, the Company must not pay excessively large compensation – in an amount exceeding the level necessary to obtain said purposes and goals. The majority of the paid-out compensation should be directly connected with the Company's performance or other concrete tasks: ***Complies***;
- An official and transparent mechanism must exist for executive remuneration policy as a whole, as well as for the payment of remuneration to each individual director. No Director may participate in the decision-making process for his/her own payment: ***Complies***;
- The Company's Board of Directors must present a balanced and coherent picture of the Company's current position and future prospects: ***Complies***;
- The Company's Board of Directors must support a reliable internal audit system that protects both shareholders' investments and the Company's own assets: ***Complies***;
- Dialogues with shareholders must be based on a clear understanding of purposes and tasks. The Board of Directors is charged with responsibility for ensuring a satisfactory dialogue: ***Complies***;
- The Board of Directors must use AGM to interact with investors and to stimulate investors' involvement in the Company: ***Complies***.

*JSC RusHydro's corporate governance structure*



Internal documents approved by the Company's managerial bodies are placed on the corporate web site <http://www.eng.rushydro.ru/investors/disclosure/articles>.

The Company's corporate governance practices and policies were evaluated by numerous independent ratings agencies. The consortium of the Russian Institute of Directors and "Expert RA" rating agency (RID – Expert RA) assigned a corporate governance score of 7 to JSC RusHydro, according to the national corporate governance scale – which corresponds to "Developed corporate governance practices" with low corporate governance risks.

Ratings' agency experts pointed to the following positive achievements related to JSC RusHydro's corporate governance practices:

- The Company's Board of Directors includes highly ranked Russian government officials, as well as independent directors and these independent directors make up more than one fourth of elected Board members;
- The limited participation of executive directors in the work of the Company's Board of Directors ensures that it is balanced from the point-of-view of effective control over the management team's activities; and it also ensures the due observance of the Company's interests as a whole and all of its shareholders when adopting a decision by this managerial organ;
- The Company's independent auditor is selected via an open tender and the selected candidate is approved by the General Meeting of shareholders;

- The Company undertook actions to grant its depositary receipt holders the right to exercise pre-emptive rights on the additional share issue. The decision was adopted by the Annual General Meeting of Shareholders on June 10<sup>th</sup>, 2009;
- In full accordance with Russian legislative requirements, the Company discloses information on its corporate web site: [www.rushydro.ru](http://www.rushydro.ru). The Company also upgraded its information disclosure practices on the English language web site: [www.eng.rushydro.ru](http://www.eng.rushydro.ru);
- The Company undertook operative measures to resolve social issues related to the accident at the Sayano-Shushenskaya HPP and decided to pay compensation to injured parties. Information regarding the accident was disclosed in an operative manner;
- JSC RusHydro's Board of Directors approved the Company's Code of Corporate Ethics. The Code stipulates corporate values, ethical norms for both employees and members of the Board of Directors; the code addresses primary principles of ethical behavior for interactions with clients, business partners, employees, organs of state authority and society as a whole.

#### *AGMs and EGMs*

The General Meeting of shareholders is the superior organ of the Company's management team; the competency of which is defined by the Russian Federal law "On joint stock companies" and the Charter of JSC RusHydro. The Company adopted a Provision on the Order of preparation for and holding of the General Meeting of shareholders, which describes in detail the Order of preparation for holding and adopting decisions at the General Meeting of shareholders.

One of the principal rights of shareholders is the right to participate in voting on agenda items at the General Meeting of shareholders – which can be realized either by being present at meeting(s) and or by submitting completed ballots by mail. In respect to observing the rights of depositary receipts on the Company's common shares as it relates to voting, JSC RusHydro interacts with its depositary bank, The Bank of New York Mellon ([www.bnymellon.com](http://www.bnymellon.com)) and its custodian JSC ING BANK (EURASIA) ([www.ing.ru](http://www.ing.ru)).

In 2009, one General Meeting of the Company's shareholders took place. On June 10<sup>th</sup>, 2009, the Annual General Meeting of shareholders (AGM) was held and the following decisions were adopted:

- Election of a new Board of Directors;
- Election of a new Internal Audit Commission;
- Approval of the external auditor – CJSC PricewaterhouseCoopers Audit – which was selected via an open tender;
- Approval of the Company's annual report and annual financial statements, including the profit and loss statement;
- Approval of the amended Provision on the payment of remuneration and compensation to members of the Board of Directors;
- Adoption of a decision on the non-payment of dividends on common shares for 2008;

- Adoption of a decision to direct undistributed profits in the amount of RUR 16,450,238,482 thousand from 2008 in the following manner: into the reserve fund – RUR 822,511,924 thousand and into the accumulation fund – RUR 15,627,726,558 thousand;
- Adoption of a decision to increase the Company’s charter capital through the additional issue of 19,000,000,000 common shares.

#### *Board of Directors and Board Committees*

JSC RusHydro’s Board of Directors is a collegial organ – responsible for the overall management of the Company’s activities, including: developing corporate strategy, controlling the activities of executive organs and protecting the rights and legal interests of the Company’s shareholders.

The Board of Directors acts in accordance with legal norms of the Russian Federation, as well as with the Company’s Charter, the Code of corporate governance and the Provision on the order of convocation and conducting meetings of the Company’s Board of Directors.

The Company’s Charter stipulates that the following issues fall under the exclusive competency of JSC RusHydro’s Board of Directors: defining priority directions for corporate activities, approving long-term development programs, including for the investment program, and approving (correcting) the Company’s key performance indicators and business plan.

Members of the Company’s Board of Directors were elected on June 10<sup>th</sup>, 2009 at JSC RusHydro’s Annual General Meeting of shareholders. As defined by the Company’s Charter, the Board has 13 members (both executive and non-executive (independent) directors).

The Board includes five independent directors: Sergey Serebryannikov, Oleg Surikov, Victor Danilov-Danilyan, Vladimir Tatsiy and Boris Vainzikher.

Three of these individuals – Sergey Serebryannikov, Oleg Surikov and Victor Danilov-Danilyan – meet independence criterion as established by the UK Combined Code on Corporate Governance.

#### **Sergei Shmatko**

Born September 26<sup>th</sup>, 1966

#### *Education*

From 1983 to 1990, Mr. Shmatko studied in the Department of mathematics and mechanics, and then later in the Department of political economy at Ural State University (Sverdlovsk). From 1990 to 1992, he studied in the Economics Department at the University of Marburg (Germany). In 2004, he graduated from higher education courses in: “Defense and ensuring the security of the Russian Federation” at the Military Academy of the General Headquarters of the Russian Armed Forces.

#### *Work experience*

In 1992, Mr. Shmatko worked as an auditor at BDO Binder (Frankfurt) and was a Director at RFI GmbH — The Society on consulting on investments in Russia. He was the official representative of the Russian Fund for Federal Property to the European Union, and was also a

scientist at the Institute of Investment Programs. Mr. Shmatko headed the External Relations Department of the All-Russian Bank for Regional Development.

1997–1999: headed the analytical center for economic strategy at “Rosenergoatom;”  
1999–2001: was an adviser on economic strategy to the General Director of the All-Russian Scientific Research Institute for Nuclear Power Plant Operation;  
2002–2005: served as Chairman of the State Conversion Fund;

Beginning in June 2005, he worked as President of CJSC “Atomstroyexport” and in January 2008, he was appointed Deputy Director of JSC “Atomenergoprom” (coordinated two positions). In May 2008, Mr. Shmatko was appointed Energy Minister of the Russian Federation.

Mr. Shmatko holds no shares of JSC RusHydro.

### **Andrei Sharonov**

Born February 11<sup>th</sup>, 1964

#### *Education*

In 1986, Mr. Sharonov graduated from the Ufa Aviation Institute (named after Ordzhonikidze), majoring in electrical engineering.

In 1996, he completed a degree in jurisprudence from the Russian Academy of State Services under the President of the Russian Federation. Mr. Sharonov also holds a ph.D. in sociology.

#### *Work experience*

Mr. Sharonov began working for the State in 1991 as the Chairman of the State Committee of the Russian Soviet Socialist Republic for youth policy. He also held the position of State Secretary and Russian Deputy Minister for Economic Trade and Development. Mr. Sharonov worked at the Ministry for more than 10 years – including 9 years as the Deputy Minister. Since 2007, he has been employed as a Managing Director at “Troika Dialog,” and in 2009, he was appointed Head of the Department of investment and banking activity at “Troika Dialog.” He has also served as Chairman of the Committee on financial markets and credit organizations for the Russian Chamber of Commerce and Industry. Mr. Sharonov is a member of the Board of Directors of JSC “Russian Railways,” JSC “Sheremetyevo International Airport” and JSC “Rosagroleasing.”

Mr. Sharonov has won the “Aristos” award in the “Independent director” category, which was awarded by the Association of Managers and the “Kommersant” editorial house in 2009. He also was recognized as the National winner of “Director of the year – 2009” in the “Independent director” category.

Mr. Sharonov holds no shares of JSC RusHydro.

### **Anatoly Ballo**

Born April 18<sup>th</sup>, 1961

#### *Education*

In 1983, Mr. Ballo graduated from the Moscow Institute of Finance, majoring in international financial relations.

#### *Work experience*

From 1983-1991, Mr. Ballo worked as an economist and scientific researcher at the Scientific and Research Institute for scientific and technical information and the economy of industrial construction materials for the Soviet Union's Ministry of Construction Materials.

1991-1992: employed as the chief expert for the State Bank of the USSR, and as of 1992, chief economist at the Central Bank of Russia;

1992-2000: held the following positions in the commercial bank "The Russian Bank for Project Financing:" chief expert, manager, Executive Secretary of the Management Board, Executive Director and Financial Director;

2000-2002: served as a consultant at "Vneshekonombank;"

2002-2005: was appointed Deputy Head of the Department of project, structural and trade financing at "Vneshtorgbank;"

2005-2007: returned to "Vneshekonombank" as a Department and Directorate Director;

Since 2007, Mr. Ballo has worked as the Deputy Chairman of "Vneshekonombank's" Management Board.

Mr. Ballo holds no shares of JSC RusHydro.

#### **Oleg Surikov**, independent director

Born July 21<sup>st</sup>, 1970

#### *Education*

In 1992, Mr. Surikov graduated from the Moscow Pedagogical Institute, majoring in state history and legislation and social and political sciences.

In 1996, he completed a degree in jurisprudence from the Moscow State Institute (named after Lomonosov).

#### *Work experience*

2002-2005: worked as Head of the department, Deputy Director and General Director for legal affairs and corporate governance at JSC "Mosenergo;"

2005-2008: worked as the chief expert and Deputy Head and later Head of the Center for Financial and Corporate Control at JSC "RAO UES of Russia."

Since 2008, he has held the position of Director of the Corporate Department and Secretary at JSC "MMC "Norilsk Nickel" (under coordinated conditions of holding two positions within the same Company).

Mr. Surikov holds no shares of JSC RusHydro.

#### **Sergei Beloborodov**

Born June 8<sup>th</sup>, 1967

### *Education*

Mr. Beloborodov graduated from the Moscow Institute of Physics and Technology in 1991, majoring in applied mathematics and physics (as a qualified physicist-engineer).

From 1991 to 1993, he studied at Michigan Technological University – completing his master’s degree (M.S.) in operations management at the School of Business (Michigan Technological University).

### *Work experience*

2003 – 2005: worked as General Director of LLC “EuroSibEnergO;”

2005 – 2006: served as the advisor to the Board of Directors of LLC “Basic Element Company;”

In 2006, Mr. Beloborodov was appointed First Deputy General Director of LLC “GAZENERGOPROM Corporation” and in 2007, he was named General Director of LLC “GAZENERGOPROM Corporation.”

For more than five years, he has been a member of the Supervisory Council of the Non-commercial partnership “Administrator of the trade system of the wholesale electricity market of the Unified Energy System” (NP “ATS”). In July 2008, he was elected Chairman of the Supervisory Council of the NP “ATS” (in September 2008, the NP “ATS” was renamed the Non-commercial partnership “Market council on the organization of an effective system of wholesale and retail trade in energy and capacity” (NP “Market Council”).

Mr. Beloborodov holds no shares of JSC RusHydro.

### **Boris Vainzikher**, independent director

Born April 8<sup>th</sup>, 1968

### *Education*

In 1993, Mr. Vainzikher graduated from the St. Petersburg State Technical University, majoring in turbine construction.

In 2002, he graduated from the Open University Business School (UK), with a management major.

### *Work experience*

Mr. Vainzikher has held numerous positions at JSC “Lenenergo.” He was then appointed Director of the Kirishskaya GRES of JSC “Lenenergo,” and later was named General Director of JSC “Kirishskaya GRES.” Beginning in 2005, he held the position of Technical Director of JSC “RAO UES of Russia” and was a member of said Company’s Management Board. From September 2006 to October 2007, he successfully combined this position with the job of General Director – Chairman of the Management Board of JSC “Power Machines.” Since 2008, he has been employed as the General Director of JSC “TGC-1.”

Mr. Vainzikher holds 0.008% of the Company’s charter capital.

### **Eduard Volkov**

Born July 18<sup>th</sup>, 1938

### *Education*

Mr. Volkov graduated from the Moscow Energy Institute, majoring in heat-and-power engineering.

He is an academician, member of the Russian Academy of Sciences, a professor and holds a ph.D. in technical sciences.

### *Work experience*

He has performed extensive scientific work in the field of modeling burning and processing of solid fuels, as well as carrying out research on the ecology of the energy industry.

Beginning in 1998, he headed up the Energy Institute named after Krzhizhanovskiy. Since 2004, he has been a Department Chair at the Moscow Energy Institute.

Mr. Volkov holds 0.000033% of the Company's charter capital.

**Viktor Danilov-Danilyan**, independent director

Born May 9<sup>th</sup>, 1938

### *Education*

In 1960, Mr. Danilov-Danilyan graduated from the Department of mechanics and mathematics at Moscow State University, majoring in mathematics.

He also holds a ph.D. in both economics and technical sciences and is a corresponding member of the Russian Academy of Sciences. Mr. Danilyan is a professor.

### *Work experience*

Mr. Danilov-Danilyan has carried out scientific activity and research in a range of fields, including: the economics of nature management, economic and mathematical modeling and sustainable development theory. He authored a work that was introduced across Russia beginning in 1991 and that introduced the concept of payments for negative environmental impact, including waste water disposal.

1991-1996: held the position of Russian Minister for the Environment and Natural Resources;  
1996-2000: was Chairman of the Russian State Committee on protecting the surrounding environment.

Currently, Mr. Danilov-Danilyan holds several positions. As of 2003, he was named Director of the Water Engineering Institute at the Russian Academy of Sciences. In 2005, he was appointed Chairman of a sub-department at the Russian People's Friendship University, and beginning in 2006, he was appointed Chief Editor of the "Encyclopedia" Publishing House at the "Infra-M" publishing firm. Since 2009, Mr. Danilov-Danilyan has been the Chair of a sub-department at Moscow State University (named after M.V. Lomonosov).

Mr. Danilov-Danilyan holds no shares of JSC RusHydro.

**Sergey Maslov**

Born August 15<sup>th</sup>, 1960

*Education*

In 1982, Mr. Maslov graduated from the Surgut Oil College.

In 1992, he graduated from the Azerbaijan Institute of Oil and Chemistry named after M. Azizbakov, majoring in “Drilling oil and gas boreholes,” with an engineering degree. In 2004, he completed a legal education at the Moscow State Legal Academy.

*Work experience*

Beginning in 1982, Mr. Maslov worked at deposit constructions in the North of Tyumen. He was a craftsman in the Department of technical control of the “Surgutneftegaz Trust” and was also a master in the area of the “Kogalymneftestroy Trust.” In addition, he was a master in the specialized “Surgutneftedorstroyremont Trust.”

Beginning in 1990, Mr. Maslov headed “KRiM” and starting in 1993, he worked as the General Director of “LUKOIL Trading.”

1996-2000: held the position of First Vice President of “LUKOIL International Limited;”

2000-2001 was the President of "LUKOIL International;”

2001-2008: served as President of JSC “Transnefteprodukt.”

Since 2008, he has been the President of JSC “Saint Petersburg International Commodity Exchange.”

Mr. Maslov holds no shares of JSC RusHydro.

**Sergey Serebryannikov, independent director**

Born May 27<sup>th</sup>, 1952

*Education*

In 1975, Mr. Serebryannikov graduated from the Moscow Energy Institute, majoring in electrical engineering.

He holds a ph.D. in technical sciences and is a professor.

*Work experience*

Since 1981, he has worked as a senior professor and Chair of the Department of electro-technical materials at the Moscow Energy Institute.

1990-1993: worked as a senior lecturer of the cathedra, Deputy Head of the cathedra for academic affairs and Deputy Rector for academic affairs at the Moscow Energy Institute;

1994-2004: was Rector for academic affairs at the Moscow Energy Institute;

Since 2004, he has served as the Rector for academic affairs, Chairman of a sub-department and Rector of the Moscow Energy Institute (Technical University).

Mr. Serebryannikov holds no shares of JSC RusHydro.

**Vladimir Tatsiy**, independent director  
Born December 5<sup>th</sup>, 1960

*Education*

In 1984, Mr. Tatsiy graduated from the Moscow Energy Institute, majoring in cryo-physics engineering.

*Work experience*

2003-2007: served as vice president and Head of CJSC “Gazprombank’s” depositary center.

Since 2007, he has held the position of First Vice President – Head of the depositary center of OJSC “Gazprombank.” Mr. Tatsiy also is the Chairman of the Board of Directors of CJSC “St. Petersburg International Commodity Exchange,” CJSC “RDK,” as well as being a member of the Board of Directors of JSC “RAO Energy Systems of the East,” JSC “FGC UES,” JSC “MRSK Holding,” JSC “ATS” and CJSC “CFR.”

Mr. Tatsiy holds no shares of JSC RusHydro.

**Rustem Khamitov**  
Born August 18<sup>th</sup>, 1954

*Education*

In 1977, Mr. Khamitov graduated from the Bauman Moscow State Technical University, majoring in mechanical engineering.

He also holds a ph.D. in technical sciences.

*Work experience*

1993-1994: worked as the Director of the Institute of Applied Ecology and Nature Management for the Republic of Bashkortostan;

1994-1996: worked as the Minister for protecting the surrounding environment, nature management and the prevention and liquidation of emergency situations for the Republic of Bashkortostan;

1996-1999: was Minister for emergency situations and ecological safety for the Republic of Bashkir, as well as a member of the Security Council of the Republic;

1999-2000: worked as Head of the Department for the prevention and liquidation of emergency situations at the Russian Ministry for Emergency Situations;

2000-2003: was Chief Federal Inspector for the Republic of Bashkir for the apparatus of the Plenipotentiary Special Representative of the Russian President in the Privolzhye Federal Region;

2003-2004: worked as the Head of the Inter-regional Inspectorate № 4 for Moscow’s largest taxpayers for the Russian Ministry of Taxation;

2004-2009: worked as Head of the Russian Federal Agency for Water Resources;

Since 2009, he has been Deputy Chairman of JSC RusHydro’s Management Board.

Mr. Khamitov holds no shares of JSC RusHydro.

**Vasiliy Zubakin**

Born August 26<sup>th</sup>, 1958

*Education*

In 1980, Mr. Zubakin graduated from Omsk Polytechnical University.

He holds a ph.D. in economics and is a professor at St. Petersburg State University.

*Work experience*

1996-2000: employed as General Director of JSC “Siberian Capital;”

2000-2002: worked as Deputy Head and Head of the Department for economics at holding companies and subsidiaries of JSC RAO UES of Russia;

2002-2006: was a member of JSC RAO UES of Russia’s Management Board;

Since 2006, he has been a member of JSC “HydroOGK’s” Management Board, and from 2007 till now, he has been Deputy Chairman of JSC “HydroOGK.” From 2008 to 2009, he served as Acting Chairman of JSC RusHydro’s Management Board.

Mr. Zubakin’s currently holds 0.0123% of the Company’s charter capital.

*2009 Activities of the Board of Directors*

The Board of Directors conducts meetings on a regular basis – not less than one time per month in accordance with the approved Plan of activities. In 2009, 21 meetings of the Board of Directors were held. In accordance with established practices, the Board of directors considered agenda items both in absentia and in person.

In 2009, JSC RusHydro’s Board of Directors approved and adopted the following development strategies and programs:

- The Company’s 2009 investment program;
- 2009 strategic development priorities;
- The Group’s consolidated business plan for the 2009-2012 period;
- A works program to standardize technical regulations for the 2009-2011 period;
- The concept of the management system for the quality and reliability of hydro-technical constructions;
- Measures for liquidating the consequence of the accident at the Sayano-Shushenskaya HPP in August 2009 and upon payments for the purpose of liquidating social consequences of this accident, including making payments to injured workers, as well as to the families of deceased and missing persons;
- Program for realizing JSC RusHydro’s ecological policy for the 2009-2011 period.

On a regular basis, the Company’s Board of Directors considered the following reports:

- Reports on the results of activities of Committees under the Board of Directors for the 2008-2009 corporate years;
- Reports on the fulfillment of the Company's key performance indicators;
- Reports on the fulfillment of the Company's Program of social protection.

Within its competency, the Board of Directors adopted decisions on approving major transactions and interested party transactions. (More detailed information on these transactions can be found in the Appendix -- *Transactions, completed by JSC RusHydro in 2009 and recognized by the Russian Federal law "On joint stock companies," as interested party transactions*).

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

Committees under the Board of Directors were created to give preliminary consideration to issues which fall under the competency of the Board of Directors, and these committees are accountable to the Company's Board of Directors. Reports on the Committees' activities are considered on an annual basis at meetings of the Board of Directors. Committee members have extensive experience and knowledge in their respective spheres of expertise. This knowledge-base significantly increases the effectiveness and quality of work of the Board of Directors.

The number of members on various committees may vary and is determined in such a way as to ensure that a broad spectrum of opinions will be heard during discussions. The Committees act on the basis of Provisions on Committees under the Board of Directors.

#### Strategy Committee (created in 2005)

The Strategy Committee contributes to increasing the Company's long-term effectiveness, developing recommendation to amend the existing corporate development strategy.

<b>Stanislav Svetlitskiy</b>	<b>Chairman of the Strategy Committee; Russian Deputy Energy Minister</b>
Maria Tikhonova	Deputy Director of the Department for economic regulation and property relations in the fuel and energy complex for the Russian Ministry of Energy
Alexander Yugov	Deputy head of the group for organizations in the oil and gas complex and minerals industry under the Department for infrastructure industries and military organizations – the industrial complex in the Federal Property Management Agency
Valentin Mezhevich	Member of the Federation Council in the Russian Federal Assembly; First Deputy Chairman of the Federation Council Commission for natural monopolies
Vsevolod Gavrilov	Head of the Directorate for managing projects in the field of energy supply and natural management at Sberbank of Russia
Sergey Beloborodov	Member of JSC RusHydro's Board of Directors
Eduard Volkov	Member of JSC RusHydro's Board of Directors
Viktor Danilov-Danilyan	Member of JSC RusHydro's Board of Directors; Independent director
George Rizhinashvili	Deputy Chairman of JSC RusHydro's Management Board

Evgeny Gorev

Member of JSC RusHydro's Management Board

The Committee's 2009 activities:

In 2009, five meetings of the Committee were held. Recommendations were offered on questions that fell under the Committee's scope, including:

- Reviewing and offering recommendations to the Board of Directors on the Strategic Development of JSC RusHydro's business for the period from 2009 till 2014;
- Reviewing and offering recommendations to the Board of Directors on the new version of the Company's dividend policy;
- Reviewing and recommending that the Company's Board of Directors approve the Motion on the Company's realization of its 2008 strategy, as well as on strategic development priorities for 2009;
- Providing the Board of Directors with recommendations on forming the Company's 2009 business plan and during the reporting period regularly examined intermediate reports that indicated how the 2009 plan was being carried out;
- Making recommendations to the Board of Directors on proposals to introduce changes to the existing technical-normative documents in the sphere of technical regulation – to help ensure the safe and reliable operation of hydro-power assets.

The Investment Committee gives preliminary consideration to investment projects and programs and also improves and develops the Company's investment policy.

<b>Andrey Sharonov</b>	<b>Chairman of the Investment Committee; Member of JSC RusHydro's Board of Directors</b>
Dmitriy Kostoev	Deputy General Director, Head of the economics and finance unit at JSC "MMC "Norilsk Nickel"
Matvey Taits	Senior analyst for the Department of analytical research at LLC "Uralsib Capital"
Viktor Lebedev	Head of the Unit for the development of electrical energy for the Department of state regulation of tariffs, infrastructure reforms and energy effectiveness at the Russian Ministry of Economic Development
Dmitry Kozlov	Deputy Director of the Department for development and investment policy in the fuel and energy complex for the Russian Ministry of Energy
Elena Pomchalova	Head of the Division for the regulation and control of power sector pricing at the Russian Federal Tariff Service
Vasiliy Zubakin	Member of JSC RusHydro's Board of Directors; Deputy Chairman of JSC RusHydro's Management Board
Denis Nozdrachev	Director of the Department for infrastructure at the State Corporation "Bank of development and external economical activity (Vneshekonombank)"
Wolfgang Skribot	Managing Director of the Department of direct investment at JSC "Gazprombank"
Maria Tikhonova	Deputy Director of the Department for economic regulation and

property relations in the fuel and energy complex for the Russian Ministry of Energy

The Committee's 2009 activities:

In 2009, 8 meetings of the Committee took place. The Committee assessed issues under its core competency and offered recommendations to the Company's Board of Directors on the following issues:

- Methodology for calculating key efficiency indicators for JSC RusHydro's investment activity (established in 2009);
- JSC RusHydro's 2010-2012 investment program;
- Regarding the realization of the BEMO Project;
- Updating JSC RusHydro's 2009 investment program;
- Changing financing sources for the Company's investment program – including approving an exchange of promissory notes of LLC "Financial Company Otkrytie" belonging to JSC RusHydro for promissory notes of LLC "ENERGO-FINANS;"
- Approving the list of and target values for JSC RusHydro's 2010 investment activity KPIs.

#### Audit Committee (created in 2007)

The Audit Committee ensures that the Board of Directors controls the Company's financial and economic activities. The Committee also develops recommendations on selecting the independent auditor and also specifies on the order of interaction between the Internal Audit Commission and the external auditor.

<b>Viktor Danilov-Danilyan</b>	<b>Chairman of the Board of Directors' Audit Committee; Member of JSC RusHydro's Board of Directors – independent director</b>
Oleg Surikov	Member of JSC RusHydro's Board of Directors; Independent director
Andrey Sharonov	Member of JSC RusHydro's Board of Directors

The Committee's 2009 activities:

In 2009, 9 meetings of the Committee took place. The Committee assessed issues under its core competency and offered recommendations to the Company's Board of Directors:

- On recommendations to the Board of Directors for the auditor to carry out JSC RusHydro's 2009 audit under Russian Accounting Standards (RAS);
- On the Company's Annual Report which details results for 2008;
- On the consideration of nominees to serve on the Internal Audit Commission;

- On the project of the Annual report based on 2008 results;
- On the Company's annual accounting reporting, including the Report on 2008 profits and losses;
- On the consideration of nominees to serve on the Company's Internal Audit Commission;
- On the audit report prepared by the Company's external auditor based on his/her audit of the Company's 2008 accounting reports;
- On establishing the maximum cost for services carried out on the 2010 audit of JSC RusHydro's accounting reports (based on RAS).

The Committee on Appointments and Remunerations (created in 2007)

The Committee on Appointments and Remunerations, under JSC RusHydro's Board of Directors, contributes to attracting qualified specialists to the Company's management team, including members of the Company's Board of Directors and to creating necessary incentives for their effective operation.

Sergey Serebryannikov	Chairman of the Appointments and Remunerations Committee; Member of JSC RusHydro's Board of Directors – independent director
Boris Vainzikher	Member of JSC RusHydro's Board of Directors – independent director
Vladimir Tatsiy	Member of JSC RusHydro's Board of Directors – independent director

The Committee's 2009 activities:

In 2009, 6 meetings of the Committee took place. Recommendations were offered to the Board of Directors on basic questions that fall under the competency of the Committee:

- Payments of compensation and remuneration to Board of Directors' members;
- Modification of typical provisions regulating the system of motivation for General Directors and top managers of SDCs, mutually dependent companies and management companies;
- Election of Management Board members.

*The Company's Management Board*

The Company's Management Board is a collegial executive organ and performs its activities in full accordance with Russian legislative norms, the Company's Charter, its corporate governance code and the Provision on the Company's Management Board. The Management Board is governed by resolutions of the General Meeting of shareholders, as well as by the Company's Board of Directors.

The Company's Management Board is responsible for practically implementing the Company's goals and development strategies, and it also manages the Company's current activities to ensure a higher level of (asset) profitability and to maximize profits from the Company's activities.

The Management Board's activities are organized by the Chairman of the Management Board, who is the sole executive body of JSC RusHydro.

During the fall of 2009, JSC RusHydro's Board of Directors chose to make a significant change in the composition of the Company's Management Board – more than half of the Board was selected anew. The following members were terminated from the Management Board: Sergey Yushin, Alexander Toloshinov, Rasim Khaziakhmetov, Boris Bogush, Oleg Oksuzian and Konstantin Belyaev. The new members selected were David Kuznetsov and Andrey Konovalov, as well as Rakhmetulla Alzhanov, Evgeny Gorev, Mikhail Mantrov, George Rizhinashvili, Yuri Sharov and the new Chairman of the Management Board Evgeny Dod.

#### Chairman of the Management Board

##### **Evgeny Dod**

Born 1973

##### *Education*

In 1995, Mr. Dod graduated from the Moscow Aviation Institute (State Technical University) "MAI", majoring in economics and the management of machinery enterprises.

He holds a ph.D. in economics.

##### *Work experience*

1993-1996: held positions of economist and senior economist at "Promradtechbank", and later worked at LLC "Investment Company "YUKOS-Invest" as the chief specialist of the Department of active operations;

1996-1999 was Deputy General Director and General Director of JSC Investment Company FARCO Securities;

1999-2000: worked as Deputy Head of the Export Department for JSC RAO UES of Russia;

2000-2008: was General Director of CJSC INTER RAO UES.

In May 2008, he was appointed Chairman of the JSC INTER RAO UES' Management Board. Since November 2009, he has been Chairman of JSC RusHydro's Management Board. Mr. Dod is also a member of JSC INTER RAO UES' Board of Directors.

Mr. Dod holds no shares of JSC RusHydro.

#### Biographies of Management Board Members

##### **Mikhail Mantrov**, Deputy Chairman of the Management Board

Born 1965

##### *Education*

In 1988, Mr. Mantrov graduated from the Moscow Energy Institute (Technical University), majoring in the cybernetics of electrical systems with a degree as an electrical engineer.

In 1996, he graduated from the National Economic Academy majoring in financial management.

*Work experience:*

1996-1997: was Chairman of the auditing department of CJSC “SAVVA Group;”  
1997-1998: worked as the Deputy Chairman of the Management Board – Head of the internal control service of the International Bank for Trade and Cooperation;  
1998-1999: was advisor to the General Director of JSC “VK Soyuztransit” for financial and accounting issues;  
1999-2000: was the Financial Director of LLC “Prop.Link;”  
2000-2008: was Deputy General Director of CJSC INTER RAO UES;  
2008-2009: was Deputy Chairman of the Management Board, Head of the Corporate Center of JSC INTER RAO UES.

Since November 2009, he has been the Deputy Chairman of the Management Board of JSC RusHydro.

Mr. Mantrov holds shares of JSC RusHydro in the amount of 0.00078% of the Company’s charter capital.

**Vasiliy Zubakin**, Deputy Chairman of the Management Board  
Born 1958

*Education*

In 1980, Mr. Zubakin graduated from Omsk Polytechnical University.

He holds a ph.D. in economics and is a professor at St. Petersburg State University.

*Work experience*

1996-2000: employed as General Director of JSC “Siberian Capital;”  
2000-2002: worked as Deputy Head and Head of the Department for economics at holding companies and subsidiaries of JSC RAO UES of Russia;  
2002-2006: was a member of JSC RAO UES of Russia’s Management Board;

In 2006, he was appointed as a member of JSC “HydroOGK’s” Management Board, and from 2007 till now, he has been Deputy Chairman of JSC “HydroOGK.” From 2008 to 2009, he served as Acting Chairman of JSC RusHydro’s Management Board.

Mr. Zubakin holds 0.0123% of the Company’s charter capital.

**Rustem Khamitov**, Deputy Chairman of the Management Board  
Born 1954

*Education*

In 1977, Mr. Khamitov graduated from the Bauman Moscow State Technical University, majoring in mechanical engineering.

He also holds a ph.D. in technical sciences.

### *Work experience*

1993-1994: worked as the Director of the Institute of Applied Ecology and Nature Management for the Republic of Bashkortostan;

1994-1996: worked as the Minister for protecting the surrounding environment, nature management and the prevention and liquidation of emergency situations for the Republic of Bashkortostan;

1996-1999: was Minister for emergency situations and ecological safety for the Republic of Bashkir, as well as a member of the Security Council of the Republic;

1999-2000: worked as Head of the Department for the prevention and liquidation of emergency situations at the Russian Ministry for Emergency Situations;

2000-2003: was Chief Federal Inspector for the Republic of Bashkir for the apparatus of the Plenipotentiary Special Representative of the Russian President in the Privolzhye Federal Region;

2003-2004: worked as the Head of the Inter-regional Inspectorate № 4 for Moscow's largest taxpayers for the Russian Ministry of Taxation;

2004-2009: worked as Head of the Russian Federal Agency for Water Resources;

Since 2009, he has been Deputy Chairman of JSC RusHydro's Management Board.

Mr. Khamitov holds no shares of JSC RusHydro.

**George Rizhinashvili**, Deputy Chairman of the Management Board

Born 1981

### *Education*

In 2002, he graduated with a B.A. with honors.

Furthermore, in 2004, he graduated with a master's degree in economics from Moscow State University (named after M.V. Lomonosov).

### *Work experience*

He began his career at CJSC INTER RAO UES. From September 2003 till January 2007, he was the chief specialist of the Investment Division and the Head of the Department for strategy and investment, as well as the Director for investment.

In May 2008, he was appointed Deputy Head of the Division – and the Director for strategy and investment at JSC INTER RAO UES. In July 2008, he was elected to JSC INTER RAO UES' Management Board.

In August 2008, he was appointed as the Head of the Company's Division for strategy and investment. Since February 2009, he has been a member of JSC INTER RAO UES' Strategy and Investment Committee.

Since November 2009, he has also been a member of JSC RusHydro's Management Board. In addition, in March 2008, he was named a member of the Board of Directors of JSC "Eastern Energy Company."

Mr. Rizhinashvili holds no shares of JSC RusHydro.

**Rakhmetulla Alzhanov**

Born 1950

*Education*

In 1972, Mr. Alzhanov graduated from the Novocherkasskia Polytechnical Institute, majoring in power plants, systems and grids (as an electrical engineer).

*Work experience*

1972-1995: worked at hydro-electric power plants (HPPs) in Tajikistan, in positions ranging from craftsman to chief engineer;

1995-2005: worked at the Zelenchuksiye HPP in the Karachaevo-Cherkessia Republic, first as Deputy General Director of JSC “Sevkavhydroenergystroy,” then later as First Deputy General Director for operations at JSC “Zelenchuksiye HPPs.”

Since November 2009, he has also been a member of the JSC RusHydro’s Management Board. He also serves as the General Director of JSC Sangtudinskaya.

Mr. Alzhanov holds shares in the amount of 0.00005% of JSC RusHydro’s charter capital.

**Evgeny Gorev**

Born 1975

*Education*

In 1998, he graduated from the law faculty at Moscow State University named after M.V. Lomonosov.

*Work experience*

He began his career as an assembly fitter for radio electronics components and appliances at the Mytishchi Electro-technical Plant.

1998-1999: worked as a legal advisor for various organizations, before joining CJSC INTER RAO UES as the First Deputy General Director for legal issues;

From January 2006 till November 2009, Mr. Gorev worked as the Deputy Head of JSC INTER RAO’s Corporate Center. Since November 2009, he has also been a member of JSC RusHydro’s Management Board.

Mr. Gorev holds no shares of JSC RusHydro.

**Yuri Gorbenko**

Born 1958

*Education*

In 1992, Mr. Gorbenko graduated from the Krasnoyarsk Engineering and Construction Institute, majoring in construction engineering.

He holds a ph.D. in economics.

#### *Work experience*

1977-1986: worked as the shift foreman and head of the concrete plant at the Sayano-Shushenskaya HPP;

1986-1992: was chief engineer and head of concrete facilities, as well as the director for the management of auxiliary facilities at “IrtyshGESstroy”, a construction of the Shulbinskaya HPP (Kazakhstan);

1992-1996: worked as head of the Department of the construction industry at the Bureyskaya HPP, which is part of the “Hydroenergostroy” Concern;

1996-1998: was General Director of JSC “ZeyaGESstroy.”

In 1998, he was named General Director of the JSC “Bureyskaya HPP,” and since January 2008, he has been employed as the Head of JSC RusHydro’s “Bureyskaya HPP” branch.

As of January 2008, he was appointed Managing Director of JSC RusHydro’s “Far East” Division and since September 2009, he has served as a member of the Company’s Management Board.

Mr. Gorbenko holds shares in the amount of 0.00056% of JSC RusHydro’s charter capital.

#### **David Kuznetsov**

Born 1963

#### *Education*

In 1988, Mr. Kuznetsov graduated from the Economic Cybernetics Department at the Plekhanov National Economic Institute, majoring in mathematical economics.

#### *Work experience*

1990-1993: worked as the Deputy Director of the Trade Union Fund for social guarantees and employment;

1993-1995: was Executive Director of the Fund for economic policy, and was a scientific researcher at the laboratory addressing issues related to privatization and property structure and was also a junior researcher at the laboratory for structural property changes at the Institute for the Economy in Transition (IET);

1995-2006: held various management positions at JSC Alfa-Bank, including: head of the Department of client relations for enterprises in the gas industry and construction complex, vice president to the head of the Department of client relations for corporate clients in the gas industry and senior vice president.

Since 2007, he has held a position as Deputy Chairman of the Board of Directors and a member of the Board of Directors – Head of the Strategic Planning Committee at JSC “First United Bank,” and Deputy General Director and Director of LLC “Levit’s” Moscow representative office.

Since October 2009, he has been a member of JSC RusHydro’s Management Board.

He holds no shares in the Company.

**Andrey Konovalov**

Born 1958

*Education*

In 1986, Mr. Konovalov graduated from the Leningrad Engineering and Construction Institute, majoring in industrial and civil construction.

He holds a ph.D. in sciences and also has an MBA in finance from the Academy of National Economics, under the Government of the Russian Federation, specializing in risk management for energy companies.

*Work experience*

1989-1992: was engaged in scientific and teaching activity;

1995-1998: headed the non-governmental pension fund “KGES-Penfo” and was a member of the Board of Directors at JSC “Krasnoyarskaya HPP;”

1998-2008: was Director for economics and finance at JSC “Krasnoyarskaya HPP;”

April-May 2008: First Deputy General Director and Director for economics and finance at JSC “Irkutskenergo.”

As of May 2008, he was appointed to serve as the General Director and Chairman of the Management Board at JSC “Irkutskenergo.” Mr. Konovalov is also a member of the Legislative Assembly of the Irkutsk Region.

Since October 2009, Mr. Konovalov has been a member of JSC RusHydro’s Management Board.

Mr. Konovalov holds no shares of JSC RusHydro.

**Yuriy Sharov, Deputy Chairman of the Management Board**

Born 1959

*Education*

In 1986, Mr. Sharov graduated from the Moscow Energy Institute (the Technical University) with a degree in the cybernetics of electrical systems.

He holds a ph.D. in technical sciences.

*Work experience*

1999-2004: worked as the Head of the Export Department at RAO UES of Russia;

2004-2006: employed as the Deputy General Director for the business “Network.” He was also the project leader for RAO UES of Russia’s design group on external economic activity;

2006-2008: was the Deputy General Director for the project group to increase electric energy exports to China for RAO UES of Russia.

Since April 2007, he has headed up JSC Eastern Energy Company.

Since May 2008, he has served as a member of the Management Board for the Geographic Division “Central Asia-Far East” for JSC INTER RAO UES.

Since November 2009, Mr. Sharov has been a member of JSC RusHydro's Management Board.

Mr. Sharov holds no shares of JSC RusHydro.

### *Shareholders*

JSC RusHydro's shareholders include more than 300 thousand investors from both Russia and abroad. The Company aims to achieve equal and operative access to information regarding the Company's activities in volume and order, corresponding with legislative requirements. With the aim of duly observing and protecting the indicated rights, JSC RusHydro guarantees the fulfillment of legislative requirements on information disclosure.

The Company does not limit itself to disclosing information that it is compelled to disclose under legislative norms and instead discloses other information, which contributes to achieving corporate information disclosure policy. The list of disclosed information, as well as the order and term for information disclosure, are established by the Provision on information policy.

Information on the Company's activities can be found at the official corporate web site in Russian at [www.rushydro.ru](http://www.rushydro.ru) and in English at [www.eng.rushydro.ru](http://www.eng.rushydro.ru). "Vedomosti" (Russia) newspaper is the official printed source of information for the Company's shareholders.

For the convenience of the Company's shareholders, the Company has set up a specialized telephone "hotline" at 8-800-555-9997 and an e-mail address at: [rushydro@mcd.ru](mailto:rushydro@mcd.ru). Depository receipt holders can also address questions to the Company's depository bank, The Bank of New York Mellon ([www.bnymellon.com](http://www.bnymellon.com)) or JSC RusHydro's Department of Investor Relations at telephone/fax +7 (495) 225-3232/225-3737.

### *Internal audit function and the external auditor (including the name of the audit company and the process for selecting an auditor)*

The Company believes that effectively exerting control over the Company's financial and economic activity is protecting the Company's assets, as well as its shareholders' investment.

The system of control over JSC RusHydro's financial and economic activity includes internal control: the internal audit commission, the Board of Directors (directly and via the Audit Committee), a separate structural division of the Company, assigned to fulfill such control function – the Department of internal audit and risk management, as well as external control: independent auditor.

The main principles, goals, methods and processes of the corporate internal control system are defined by Provisions, which have been adopted by JSC RusHydro's Board of Directors, in the following internal documents:

- On the position on the policy of internal control and risk management;
- On the position on the Audit Committee under the Board of Directors;
- On the position on the internal audit commission;
- On the position on the internal audit and risk management department.

### *Internal Audit Commission*

The five-member Internal Audit Commission is elected for one-year terms by the General Meeting of shareholders. The Commission's primary aims include: executing control over financial and economic activity, ensuring that the Company's financial and economic activities conform with both Russian legislation and the charter of JSC RusHydro and carrying out an independent evaluation of information related to the Company's financial conditions.

The Commission's membership was approved by a resolution of the Company's Annual General Meeting of shareholders on June 10<sup>th</sup>, 2009.

#### Members of the Internal Audit Commission

<b>Denis Gataulin</b>	<b>Chairman;</b> Deputy Director of JSC RusHydro's Department for Capital Management
Andrey Kochanov	Head of the internal audit and risk management department at JSC RusHydro
Maria Tikhonova	Deputy Director of the Department for economic regulation and property relations in the fuel and energy complex for the Russian Ministry of Energy
Marina Kovaleva	Head of the division in a Department at the Russian Energy Ministry
Andrey Kolyada	Chief specialist-expert for a department of the Federal Agency for Property Management.

In 2009, the Internal Audit Commission inspected the Company's financial and economic activity.

#### *Internal audit and risk management department*

In an effort to implement internal control procedures, the Company launched the Department of internal audit and risk management in 2007; this Department is accountable to the Chairman of the Management Board.

The main tasks and functions of the Department include:

- Evaluation and analysis of the Company's financial conditions as a whole, its branches and structural sub-divisions upon the order of the Chairman of the Management Board of the Issuer;
- Interaction with the Internal Audit Commission and the external auditor;
- Timely information transfer to the Chairman of the Management Board on identified deviations and breaches in the Company's activities, as well as submitting suggestions on correcting breaches and defects identified as a result of inspections and monitoring, as well as recommendations on upgrading management effectiveness;
- Interaction with the Audit Committee under the Company's Board of Directors;

- Execution of control over the observance by members of the Board of Directors, executive organs of the Company and other employees of the norms of active legislation and special requirements, contained in the Company's internal documents, in order to avoid conflicts of interest and misuse as a result of using insider information.

In 2009, the Department carried out the following measures:

- Fulfilling the annual plan for 2009 control measures, as a result of which 13 verifications were carried out at 8 of the Company's branches;
- Conducting verification of the Company's accounting and operative information, submitted by divisions of the executive apparatus and its branches;
- Carrying out control over interested party and major transactions;
- Monitoring internal control procedures over the Company's activities and analyzing its internal control system;
- Working on determining, classifying and analyzing risks in the sphere of financial and economic activity and preparing recommendations to decrease these risks;
- Analyzing and developing measures to increase the effectiveness and performance of the Company's financial and economic activity, including conducting evaluations of applicable standards, regulations and methods, approved by and used at the Company;
- Performing control at subsidiaries and dependent companies through Internal Audit Commissions at these companies;
- Exercising control over the observance by members of the Company's Board of Directors, executive organs of the Company and other employees with norms of active legislation and special requirements, contained in the internal documents of the Company, in order to avoid conflicts of interest and misuse as a result of using insider information.

#### *Independent external auditor*

On a yearly basis, JSC RusHydro conducts an annual audit of its financial (accounting) reports. The independent external auditor is approved by the Annual General Meeting of shareholders based on a recommendation by the Company's Board of Directors.

The Company selects its independent auditor from a pool of independent auditing companies that have participated in the open tender. To conduct the tender process, a Competitive Commission is formed by the Audit Committee under the Company's Board of Directors. The Committee also approves tender documentation upon the right on concluding the contract on the provision of services for the audit of financial (accounting) reports.

During the reporting period, closed joint stock company "PricewaterhouseCoopers Audit" (CJSC "PricewaterhouseCoopers Audit") was recognized as the winner of the open tender process; this decision was approved by the Annual General Meeting of shareholders on June 10<sup>th</sup>, 2009.

## Contact information

Closed joint stock company “PricewaterhouseCoopers Audit”

Telephone: +7 (495) 967-6000

Fax: +7 (495) 967-6001

e-mail: [pwc.russia@ru.pwc.com](mailto:pwc.russia@ru.pwc.com)

[www.pwc.com](http://www.pwc.com)

## *Remuneration policy*

### *Remuneration to the Board of Directors*

The 2009 Annual General Meeting of shareholders adopted the Provision on the payment of remuneration and compensation to members of the Board of Directors of JSC RusHydro, in accordance with which members are paid remuneration in an amount equal to five minimum monthly wages for a grade one worker, which is set by the industry tariff Agreement of the electric energy complex of Russia at the moment of the holding of the meeting of the Board of Directors, taking into account indexation set by the Agreement, for one month after holding of said meeting of the Board of Directors. The remuneration paid to the Chairman of the Board of Directors (Deputy Chairman of the Board of Directors) for each meeting at which he fulfilled his functions as Chairman of the Board is increased 50%.

Members of the Board of Directors are paid additional remuneration in the case of the Annual General Meeting of shareholder’s adoption of a resolution on the payment of dividends on JSC RusHydro’s common shares on results of the financial year (taking into account interim dividends, if this was adopted by an appropriate resolution of the General Meeting of shareholders).

Compensation and remuneration may not be paid to members of the Board of Directors, who are simultaneously the Chairman or a member of the Management Board or to members of the Board of Directors who hold state positions or positions within the state civil service.

The total amount of remuneration and compensation paid to members of the Company’s Board of Directors in 2009 (including members of the Board who held this position only prior to June 10<sup>th</sup>, 2009) was RUR 3,833,510 (RUR 10,181,388 in 2008).

### *Remuneration to the Management Board*

Remuneration paid to the Chairman and members of the Management Board is performed in accordance with conditions contained in labor contracts and the Provision on material incentives for top managers of JSC RusHydro, which was approved by the Company’s Board of Directors.

The sum of remuneration and compensation paid to the Chairman and members of the Management Board in 2009 (taking into account changes in the membership of executive organs) totaled RUR 97,995,399.23 (RUR 59,559,839 in 2008).

### *Remuneration to the Internal Audit Commission*

Remuneration and compensation is paid to members of the Internal Audit Commission, in accordance with the Provision that was adopted by the General Meeting of shareholders. Members of the Commission are paid a lump-sum payment in an amount equal to twenty-five minimum monthly wages for a grade one worker, which is set by the industry tariff, the Agreement

of the Russian electric energy complex at the moment of holding the verification (inspection) meeting taking into account the indexation set by the Agreement. The amount of remuneration paid to the Chairman of the Commission is increased 50%.

As individuals, members of the Internal Audit Commission have limits or prohibitions on the right to receive payments from commercial organizations. Thus, remuneration and compensation to these individuals is not accrued or paid.

Total remuneration and compensation paid to members of the Internal Audit Commission in 2009 (taking into consideration members of this Commission acting until June 10<sup>th</sup>, 2009) was RUR 10,770,270.62 (RUR 6,921,807 in 2008).

#### *Remuneration to the Auditor*

Remuneration to the Auditor is defined based on results of an open tender, which is then approved by the Board of Directors of JSC RusHydro. The Company paid CJSC PricewaterhouseCoopers Audit (the winner of the tender process) RUR 17,000,000 (excluding VAT) for the independent audit of 2009 financial reports.

#### *Dividend policy, including a history of dividend payment*

The primary purpose of the Company's dividend policy is to ensure the Company's strategic development and to increase shareholders' wealth by establishing an optimal balance between current consumption of net profit by shareholders and the capitalization of profit.

With the goal of informing shareholders about dividend policy, ensuring the transparency of the mechanism for defining the amount of dividends and their payment, including limitations on their payment, in 2009, JSC RusHydro's Board of Directors adopted the Provision on the Company's dividend policy.

The recommended sum of dividend payments is defined by the Board of Directors based on the Company's financial results.

Based on 2008 results, the Company announced that it would not pay any dividends.

#### *Dividend history*

Reporting period during which dividends on shares were paid	Total volume of announced (accrued) dividends, thousand RUR	Volume of announced dividends per share, RUR
9 months of 2005	27,889	0.000268289
2005	565,695	0.005441922
Q1 2006	223,600	0.002151
H1 2006	110,588	0.00106384
9 months of 2006	809,000	0.005739439
2006	A resolution on the payment of dividends was not adopted	
Q1 2007	1,119,000	0.00793872
2007	A resolution on the payment of dividends was not adopted	
2008	A resolution on the payment of dividends was not adopted	

### *Subsidiaries and dependent companies' (SDCs) management. Corporate holding structure*

Interactions between JSC RusHydro and its subsidiaries and dependent companies (SDCs) is focused on realizing the Company's strategy in the hydro-power segment, ensuring stable economic development and upgrading investor attractiveness, as well as protecting shareholders' rights and interests both in the Company itself and in its subsidiaries and dependent companies.

Based on the Order of Interaction of JSC RusHydro with organizations in which it participates, adopted by the Company's Board of Directors, the Company manages SDCs with the help of its representatives at General Meetings of shareholders, Boards of Directors and other controlling organs of the SDCs. Responsibility for resolving issues at top management organs of its 100%-owned subsidiaries is vested in JSC RusHydro's Management Board. The Company's Board of Directors adopts strategic decisions on its SDCs' activity in the areas of: re-organization, liquidation, changes in charter capital, approval of major transactions and the SDCs' participation in other organizations.

The Company focuses significant attention on upgrading corporate governance practices at the SDCs, and in particular, carries out measures to increase transparency at the SDCs. The Company also observes the SDCs to ensure that legislative requirements related to compulsory information disclosure are being met.

### *Corporate actions with subsidiaries and dependent companies (SDCs)*

On February 27th, 2009, JSC RusHydro's Board of Directors approved a contract that concluded the transfer of 25.1% of JSC OGK-1 shares (previously belonging to JSC RusHydro) to JSC INTER RAO UES.

In April 2009, JSC RusHydro increased its participation in JSC ESK RusHydro from 57.44% to 100% by acquiring 1,282,000,000 ordinary shares (42.6% of JSC ESK RusHydro's authorized capital) from the New Energy Fund. The transaction was valued at RUR 1,285,000,000 with a par value of one ruble per share. The sales holding JSC ESK RusHydro owns shares in the following retail sales companies:

- 51.75% of JSC Krasnoyarskenergosbyt;
- 90.52% of JSC Ryazan Power Sales Company;
- 100% - 1 share of JSC Chuvash Power Sales Company.

In connection with JSC RusHydro's holding a minority stake in JSC Viljujskaya HPP-3 (1.9016 %) – which did not allow it to participate in JSC Viljujskaya HPP-3's management – on April 7th, 2009, JSC RusHydro's Board of Directors made a decision to stop participating in JSC Viljujskaya HPP-3 by directly selling its stake to JSC "ALROSA-Ohrana" (a 100 %-owned subsidiary of CJSC "Alrosa" Joint-Stock Company).

On April 7<sup>th</sup>, 2009, JSC RusHydro's Board of Directors approved the conclusion of a contract between JSC RusHydro and JSC Zagorskaya PSHPP-2 for the purchase and sales of additional shares of JSC Zagorskaya PSHPP-2, which were placed via closed subscription in favor of JSC RusHydro with a view to capitalize the Company's contributions to construction financing. As a result of the transaction, JSC RusHydro's participation in JSC Zagorskaya PSHPP-2 will remain at 100%.

On April 7<sup>th</sup>, 2009, JSC RusHydro's Board of Directors made the decision to found a 100 %-owned subsidiary - JSC Nizhne-Kureiskaya HPP. The Company was created with a view to maintaining appropriate registration of property in its possession, using and the order by the ground areas and also passages of the Russian Federation's Glavgosekspertiza.

On June 10<sup>th</sup>, 2009, JSC RusHydro's Board of Directors approved the establishment of a 100 %-owned subsidiary - JSC Far East WPP. The Company was created specifically for the realization of the Far East wind power station construction project, which is included in the list of power supply objects for the 2012 APEC Summit. The Far East WPP is the first large-scale project to use renewable energy sources (RES) in the Primorsky Region.

On July 23<sup>rd</sup>, 2009, JSC RusHydro's Board of Directors made the decision to liquidate its 100 %-owned subsidiary JSC Prometey, which had carried out functions of the customer and had conducted technical supervision and commissioning of the Gunibskaya HPP. The purposes that the Company was created to address have been successfully achieved. Operational functions of the Gunibskaya HPP were transferred to the Dagestan Branch of JSC RusHydro.

On October 2<sup>nd</sup>, 2009, JSC RusHydro's Board of Directors approved a change in the participation level in JSC Geoterm, which was achieved by acquiring JSC Geoterm shares from JSC Kamchatskenergo. As a result of the transaction, JSC RusHydro increased its participation in JSC Geoterm's authorized capital from 71.61% to 79.84 %. The increase is aimed at consolidating geo-thermal assets in the Kamchatka Region under the JSC Geoterm umbrella. This consolidation will allow the formation of unified geo-thermal asset management and will also help maintain innovative development in this direction.

## **XIV. Corporate Social Responsibility**

### **Overview**

JSC RusHydro is strongly focused on building and maintaining a best practice Corporate Social Responsibility (CSR) system. The Company recognizes that effective CSR will build shareholder value in the long-term, and the Company also understands that a well-established CSR policy – in line with accepted (and clearly defined) international best practice standards – will help attract a broader range of international investors, stimulating increased liquidity and generating a diversified shareholder base (which will stabilize the share price even during downturns in the domestic market).

JSC RusHydro's CSR policies and programs are based on four principles: (1) strictly observing labor, tax and other legislative (and regulatory) norms that impact the Company; (2) realizing all principles of a public company (as defined by investor expectations and regulatory requirements), which generally has a much broader stakeholder-base than a non-public company; (3) increasing investor attractiveness and (4) designing and implementing a comprehensive approach to using renewable and clean energy sources.

Over the last several years, the Company has taken numerous concrete steps to upgrade its CSR standards, including: adopting a dividend policy, electing well-respected industry experts to serve as independent non-executive directors on the Company's Board of Directors and creating numerous committees – Strategy, Investment, Audit and Human Resources & Remunerations – under the Company's Board of Directors (Additional details on these Committees, including: composition and key 2009 actions, can be found in the Corporate Governance section of the Annual Report. Biographies of the independent non-executive directors can also be found in the same section of the Report).

The Company's focus on and commitment to CSR has only been strengthened during the reporting period – largely due to JSC RusHydro's successful technical listing on the Main Market of the London Stock Exchange in July 2009, which increased the regulatory reporting requirements that the Company was subject to.

### **Human Resources**

As part of its comprehensive policy to optimize labor force effectiveness and to reduce head count, while maintaining safe and reliable operating conditions, JSC RusHydro reduced the number of its employees from 5,753 as of January 1<sup>st</sup>, 2009 to 5,426 as of December 31<sup>st</sup>, 2009 – a 5.7% drop. A significant portion of this decrease can be attributed to the Company's increased reliance on outsourcing – including outsourcing non-specialized services, such as: janitorial and repair/maintenance work. The Company also offered voluntary retirement options to older workers.

Of the Company's work force, the vast majority of employees are between the ages of 30 and 50 years old; and 79% of Company employees have completed higher and professional secondary education – indicating that JSC RusHydro's work force is highly skilled and professional in the sector in which the Company operates. In addition, the number of personnel with higher education increased 4.75% during the reporting period.

During the reporting period, the average employee received a salary of RUR 57,138 per month – a 10.2% increase compared to 2008. This compensation figure does not take into account non-material compensation that the Company provides (as part of its comprehensive incentive scheme), such as medical insurance or participation in non-governmental pension programs.

JSC RusHydro's policies towards its employees are governed by the following principles: (1) to upgrade the general qualification levels of its employees (through implementing comprehensive training programs); (2) to offer best practice social program packages and (3) to improve the motivation/incentive system thus, creating a more effective labor force and a more efficient and reliable company.

## **Training**

Corporate training is carried out to ensure that the Company's work force can realize the tasks that it faces by developing the personnel's core competencies. For the purpose of human resources, the Company devotes significant attention to upgrading the corporate instruction process for its colleagues. The Company recognizes that its ambitious development program – targeting the creation of an international blue chip energy sector company (focused on renewable energy sources) – will not be feasible without a highly trained work force.

### *Principles of training*

Effectively training JSC RusHydro's workforce is an ongoing process that is planned for and implemented on a regular basis. The points below detail some of the key features of this training:

- Qualification upgrades – not less than one time in a three-year period;
- Professional training and preparation – based on requirements established by relevant regulatory agencies. If necessary, the employee will be required to obtain new training and/or certification;
- Professional re-training – conducted due to production needs that call for new forms of professional activity or that require additional qualifications, for the purpose of educating the work force;
- Corporate education – addressing Company-specific challenges; this training is conducted by attracting corporate employees or outside instructors to teach relevant topics;
- Yearly instruction on production issues;
- Short-term training programs at educational institutions (including: seminars, conferences and forums) – yearly, depending on production needs;
- Distance (remote) learning on a yearly basis, based on the Company's production needs.

To improve the quality of instruction, during 2009, JSC RusHydro focused on improving educational processes and procedures – principally through the introduction of E-learning (distance learning). E-learning allowed the Company to effectively reach employees in geographically remote regions and successfully increased the number of trained employees in the Company.

Key directions for training JSC RusHydro's workforce:  
2009 number of employees participating in the program(s) and total training expenditures:

№	Key training directions	Number of participants	Expenditures, RUR th.	
1	Normative requirements, based on the requirements of Rostekhnadzor, Rostruda and other regulatory agencies	1,151	7,010	
2	Technological and normative education, necessary to carry out functional responsibilities	Design, building, equipment operating and buildings and construction	643	5,826
		Economics and finance	474	3,883
		Law	34	645
		Information technology	249	3 594
		Corporate department	28	69
		Human resources department	222	843
		Economic safety and civil defense issues, warning and liquidating emergency situations	80	734
		Public relations	40	68
		Administrative guarantees	52	700
3	Organizational-administrative education	932	3,066	
4	Design instruction	156	375	
5	Higher education	20	750	
Total		4,081	27,564	

During the reporting period, JSC RusHydro invested RUR 39.1 mln. on training programs, which compares to RUR 23.2 mln. in 2008.

JSC RusHydro devotes significant effort to developing an effective personnel reserve pool for the following reasons:

- To guarantee that the work force can carry out tasks related to corporate development;
- To consistently reinforce the current composition of the Company's management team

with highly qualified personnel;

- To motivate workers' professional growth and to provide additional stimulus to increase education levels and/or professional qualifications;

Effectively forming the Company's personnel reserve pool is predicated on the following key principles:

- Strategy – coordinating tasks and operating principles with individuals in the pool on issues related to both the Company's development and on the formation of strategic organizational objectives;
- Reliability – applying personnel estimation and instruction techniques to forming a well-balanced personnel reserve pool;
- Development – creating opportunities for the Company's employees to achieve professional growth and development.

### **Worker policies**

In addition to training its work force, JSC RusHydro understands the importance of appropriately motivating its employees.

The Company recognizes that workers are motivated and appropriately incentivized not only by wages (and other forms of monetary compensation), but also through offering a best practice social program package – designed to address the most pressing needs and concerns of employees and their families.

During the reporting period, the Company continued to actively engage in efforts to upgrade its social support package. All components of the support program are predicated on documents that have been approved by JSC RusHydro's Board of Directors. These documents include: the Standard Collective (Bargaining) Agreement, which was approved by the Board of Directors on February 18<sup>th</sup>, 2008 and the Position on non-governmental pensions for workers (Orders #224 from April 23<sup>rd</sup>, 2008 and #163 from March 16<sup>th</sup>, 2009).

In addition to non-governmental pensions offered by JSC RusHydro, the Company also provides voluntary medical insurance, voluntary insurance against accidents (Protocol #91 from December 30<sup>th</sup>, 2009) and programs to improve housing conditions (the Position on corporate support and assistance to improve housing conditions, #305 from May 30<sup>th</sup>, 2008) as part of its comprehensive social support program (this program was initially introduced by the Company in 2008).

However, despite the scope of programs falling under the social support package umbrella, non-governmental pension provision constitutes the single largest component in the Company's total social support expenditures. During the reporting period, JSC RusHydro devoted RUR 836.3 mln. to total social expenditures – and of this amount, 44% of funds were focused on non-governmental pensions. The relatively large expenditures on pension provision can be accounted for largely by the average age of Company employees. During the reporting period, 2,413 employees participated in the non-governmental pension program. In addition, 1,645 employees

who had either retired before the Program was launched or who had a limited period in which to pay into the Program participated in the Veterans' non-governmental pension program.

In addition to the outlined expenditures on non-governmental pensions, the Company also devoted RUR 65.6 mln. to voluntary medical insurance as well as to voluntary insurance against accidents and illness – allowing its employees access to quality health care in addition to free health care provided by the Russian state. All Company employees are eligible to participate in this voluntary insurance program once they have completed a minimum period of employment with JSC RusHydro – helping to ensure a healthy and productive workforce.

The social support package also includes provisions to improve housing conditions for the Company's labor force – recognizing that housing in Russia is relatively expensive for average workers and that the mortgage loan market remains under-developed relative to many European countries. As part of the process of upgrading housing conditions, during the reporting period, JSC RusHydro (through 15 of its operating branches) arranged 28 interest-free loans – in the amount of RUR 30,351 thousand. An additional 48 employees received reduced interest rates on their mortgages – the value of these reductions totaled RUR 2,503 thousand. JSC RusHydro plans to continue to actively invest funds in its housing program to more effectively service the needs of its employees. These 2009 figures represent a decrease – both in the number of employees serviced and the funds directed at the program – compared with 2008 when 59 employees received interest-free home loans totaling RUR 70,744 thousand.

In sum, expenditures on benefits, guarantees and compensation afforded by the collective bargaining agreements signed by the Group's branches totaled RUR 347.7 mln. during the reporting year.

The Company firmly believes that the social support program will significantly upgrade worker satisfaction and overall morale – therefore, likely decreasing employee turnover. The excessive turnover could potentially lower productivity and increase the risk of unreliability and unsafe working conditions, and therefore, negatively impact the Company's bottom-line operating margin.

Taking this into account, JSC RusHydro believes that the social support package represents a long-term, economically rational expenditure for the Company.

### **Workplace safety**

Ultimately, however, the Company recognizes that the most important piece of corporate workforce policy is ensuring a safe and healthy workplace.

The Company's workplace safety policies are based on the following principles: (1) improving employee working conditions; (2) effectively training and preparing employees in the area of production safety – including ensuring that all employees have access to and routinely use protective gear (supplied by the Company) and other safety equipment; (3) upgrading technological and ecological safety systems and ensuring that the Company's operating assets are in reliable and safe working conditions (The Company's technical rehabilitation and modernization program, which is scheduled for completion no later than 2020, is a key component in this step. Without up-to-date facilities that have modern safety standards, the risks of workplace accidents – and potentially severe accidents – are increased) and (4) ensuring that health, safety and environmental recommendations from federal ministries and agencies, as well as other relevant organizations (both governmental and non-governmental), are implemented in a timely and safe manner.

Guaranteeing safe and reliable working conditions – that minimize the risk of injuries and/or fatalities to employees, as well as potential environmental consequences – can be a costly endeavor, but JSC RusHydro believes that it is an integral part of being a socially responsible company.

## **Communities**

JSC RusHydro is firmly committed to building strong and vibrant communities, particularly in the regions in which it operates. At the same time, RusHydro recognizes that many of its operating facilities are located in remote regions of Russia and thus, these communities are often affected by and subject to serious social and economic risks. A strong and healthy community produces healthy and productive workers – able to contribute to the overall efficiency of the Company.

To help build these thriving communities, JSC RusHydro adopted Regulations on Charitable and Sponsorship activities in 2007. Although these efforts are broad-based and focused on upgrading the standard of living in local communities, the Company focuses particular attention on children – who form the foundation for Russia, and the Company’s, growth and development.

All corporate charitable and sponsorship activities are based on the following key priorities and directions:

- Providing help to disadvantaged populations, the disabled and pensioners – primarily through charitable funds, organizations and institutions;
- Providing assistance to retired power sector employees, as well as honorary workers from this sector;
- Providing assistance to children’s institutions and organizations;
- Offering help to medical institutions;
- Contributing to the restoration of Russia’s historical architectural monuments, as well as developing the country’s culture, educational systems, science and sport.

The Company (and its subsidiaries and dependent companies) do not provide support to any commercial organizations or to representatives of legislative, judicial or executive powers. The Company also does not offer assistance in any form to political parties or social movements.

The Company’s flagship charitable program is the *Sail of Hope* project, which was launched in Q3 2008 to provide assistance to children from at-risk families, as well as displaced children who live in orphanages or other state facilities. In addition to other aspects of the project, *Sail of Hope* also provides vocational guidance to youth participating in the program which helps form long-term human resources potential for the industry. The Project also contributes to creating a positive image for the hydro-power industry, as a promising sector in which youth can achieve both their personal and professional ambitions.

The Company also believes that *Sail of Hope* will introduce scientific and educational research programs for young children, as well as provide more targeted professional introduction programs for upper class students.

The guiding principle of this program is that it unites in a single continuous process effective socialization of children raised in orphanages and children's boarding schools, the child's professional education, the ability of said child to obtain higher education and the reinforcement of the Company's pool of skilled workers.

In addition to assisting troubled children and youth, the Company also reached out to gifted and talented youngsters through its Hydro Academy Program, which principally focuses on recruiting promising science and engineering students to consider careers in the power sector.

Furthermore, the Project offers opportunities in the following areas: support of water sport schools for children and youth, natural history field trips "To the source of a river," New Year's parties for children and open door days ("We are open for all") at JSC RusHydro's operating HPPs (which allows for a safe and exciting introduction to the power sector).

The Company also sponsors the "Energy to Children!" Festival. The Festival brings unique cultural and educational events to all orphanages and boarding schools in the cities and regions in which JSC RusHydro is present.

The Festival allows the Company to simultaneously address numerous challenges:

- To select and support the most gifted children at orphanages and boarding schools;
- To familiarize children and youth with leading examples of children's art;
- To facilitate a motivated and proactive attitude among children who participate in this program.

Prior to the festival, at each of the participating educational institutions, contests were organized to select the most gifted children. Contest winners participated in joint concerts (events) with top Russian youth creative teams. In addition, contest winners received special grants which will allow them to pay for future education.

On May 14<sup>th</sup>, 2009, at the Concert Hall of the Moscow State Cultural Center for Children and Youth Art, a gala concert was held that included students from orphanages and boarding schools in Yaroslavl, Volgograd, Samara, Saratov, Nizhniy Novgorod, the Chuvash Republic and the Perm Krai. The Concert also included participants from leading Moscow children's art collectives, such as the Song and Dance Company named after V. Loktev, the "Domisolka" children's musical theater and the children's vocal and choreographic ensemble, "Neposedy."

### **The Sayano-Shushenskaya HPP accident**

During the reporting period, the Company directed a large portion of its cash resources to assisting the families of workers who were injured or killed as a result of the Sayano-Shushenskaya HPP accident.

During 2009, the Company fully fulfilled all outstanding obligations to the families of deceased workers:

- In the amount of two average monthly paychecks of the deceased workers;
- In the amount of RUR 38,170 to pay for burial expenses;

- In the amount of RUR 1,000,000;
- In the amount of one-year's salary to each of the deceased employee's dependents (covering 46 families and 76 dependents).

One-time payments were made to 55 workers injured in the accident. The amount of the payments depended on the severity of the injuries sustained:

- For light injuries, in the amount of 2 average monthly salaries (but not less than RUR 50,000);
- For serious injuries, 2 average monthly salaries, plus an additional RUR 100,000.

Twenty apartments were acquired for families with minor children or pregnant women, who did not previously have housing, as well as for children who are orphans (18 families benefitted from this Program which was valued at RUR 27,000,000).

The Company also provided for the payment of non-governmental pensions (under the non-governmental pension fund for power sector employees) to the spouses and parents of deceased workers both of pension and non-pension age (78 employees).

Furthermore, on a monthly basis, benefits are paid to affected families till the youngest child in said family reaches the age of 18 – in the amount of one salary (tariff rate) (affecting 29 families).

As of December 30th, 2009, the total sum paid out for the above mentioned projects stood at RUR 185 mln.

In addition:

- Two specialized emergency vehicles (ambulances) have been acquired for the local paramedic station;
- The Company worked with banks to repay loans that had been held by deceased workers (43 loans at 6 banks were fully paid off);
- Funds for personal scholarships payments for 60 children were allocated;
- Seventeen students were transferred to budgetary places.

The Company is actively working to place family members of deceased workers in appropriate jobs – 7 individuals are currently participating in job placement services and 46 individuals have already been placed.

Psychological support is being offered to affected individuals. During the reporting period, 82 children and more than 400 adults received assistance. Forty-three teachers and 29 psychologists provide assistance to survivors and victims' families. Three psychological centers have been opened and continue to operate, and the psychological state of the families of deceased employees is routinely monitored via home visits.

The psycho-emotional state of children in the 2nd – 11th grades at School №1 is regularly checked and two class hours are devoted to this purpose for students in grades 10 and 11.

The Company has launched the “Early Professionalism and Creative Abilities Development” project in the town of Sayanogorsk. The project is geared towards assessing participants’ professional tendencies and to developing motivation/work ethic and appropriate work habits and skills.

The “Kangaroo Group” – focusing on music and drawing – has been started for moms and children. In addition, classes in health-enhancing gymnastics have been launched.

A Coordination Council – involving representatives of the Republic of Khakassia and founders of the various charitable organizations – has been created to see that aid is effectively provided to the families of workers killed at the Sayano-Shushenskaya HPP accident, as well as to injured employees.

### **Total charitable contributions**

For the reporting period, the Company spent RUR 141.2 mln. on charitable donations and other community-building activities; this compares favorably with the RUR 132.9 mln. that was spent in 2008.

### **Ecology**

The primary goal of JSC RusHydro in the sphere of managing its influence on the environment (according to corporate ecological policy) is — increasing the level of ecological safety, maintaining the reliable and ecologically safe manufacture of electric power and providing a complex approach to the use of natural power resources.

JSC RusHydro, in the sphere of ecological safety and environmental protection, is guided by the following basic principles:

- Prioritizing ecological safety as a key component of national safety;
- Saving power and rationally utilizing power resources, and also decreasing negative environmental impact at all stages of the HPP cycle;
- Prioritizing the acceptance of pre-cautionary measures over alternative measures to liquidate negative environmental consequences;
- Accepting administrative and investment decisions based on a multi-variant approach to development scenarios taking into account ecological priorities;

Maintaining ecological safety is a priority task for the Company, whose activity is characterized by the following ecological risks:

- Risk of excessive water levels in the reservoir in the dam’s headrace and/or tailrace that may result in coastal zone flooding where industrial structures, inhabited objects and natural complexes may be located. However, to minimize the given risk, owners support dams and constructions in proper condition and timely repair is carried out at deteriorating sites. Supervision over water objects and water security zones is regularly carried out at JSC

RusHydro's SDCs and branches. Supervision illustrates that HPPs do not essentially negatively impact water objects.

In addition, the Company, for its part, based on high water weather forecasts informs water users on potential changes in river levels so that necessary protective measures can be taken;

- Risk of oil leaking into rivers from HPP hydro-units. Management of the given risk consists of realizing actions of the Program to modernize and reconstruct under the framework of replacing elements and knots of water-wheels, which ensures high ecological compatibility of manufactured items.

The Company's ecological policy is carried out according to JSC RusHydro's 2009-2011 Program for Realizing Ecological Policy, which includes real actions to decrease environmental impact.

In 2009, all of JSC RusHydro's hydro-generating objects complied with Russian Federation legislation in the sphere of environmental protection and met all ecological requirements of the Company.

- Legalized papers for receiving a standard and allowing documentation for water object usage, in reference to waste and on atmospheric environmental emissions;
- In due time, provided reports using state statistical reporting forms to state organs;
- In due time, paid for pollution that it (the Company) caused to the surrounding environment;
- Carried out planned environmental protection activities to decrease negative environmental impact;
- Conducted industrial activity according to Russian Federation legislative requirements in the fields of environmental protection and wildlife management.

In 2009, the Company moved forward with realizing its project "Introduction of JSC RusHydro's ecological management system in full compliance with ISO 14001-2004 standards:"

- Introduced the System of Ecological Monitoring (SEM) at the following JSC RusHydro branches – the Zagorskaya HPP, the Cascade of the Kuban HPP and the Cheboksarskaya HPP;
- Started a pilot project to introduce an integrated management system (ecological management system (ISO 14001), quality system (ISO 9001) and a professional health control system (OHSAS 18000)) at JSC RusHydro's Sayano-Shushenskaya HPP.

In connection with the SS HPP accident on August 17<sup>th</sup>, 2009, given work has been suspended:

- The introduction of SEM at JSC RusHydro's Kamskaya HPP branch has begun;
- Supervising SEM audits to acknowledge a certificate of conformity (with standards) for the Volzhskaya HPP and the Zhigulevskaya HPP;
- An ecological audit has been scheduled at JSC Kolymaenergo. As a result of the ecological audit, actions have been developed and implemented to eliminate any revealed discrepancies with environmental protection legislation.

Ecological safety training for top management and experts at JSC RusHydro's SDCs and branches is being carried out.

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On August 17<sup>th</sup>, 2009, an accident occurred at JSC RusHydro's Sayano-Shushenskaya HPP. As a result of the accident, the machine hall was destroyed and some oils contained in the processing equipment were released into the surrounding water supply.

During the first hours following the accident, the gathering up of mineral oil that had got into the Yenisei River was organized and their further recycling was established by a legislative order of the Russian Federation. Visual and laboratory quality analysis of the reservoir water and coastal zone soil was organized and carried out.

In order to store remains of destroyed structures of the HPP, a temporary storage area was set up. Laboratory quality assessment of air, water and soil in a zone surrounding the destroyed construction has been carried out to ensure the non-existence of secondary environmental contamination.

With a view to normalizing the ecological situation after the accident, the Plan for environmental protection was developed. The Plan's actions have been executed in full.

In conformity with Russian Federation natural protection legislation – and in connection with changed wildlife management conditions – documentation for JSC RusHydro's Sayano-Shushenskaya HPP branch has been processed and new specifications and limits have been received.

With a view to preparing for the passage of the autumn-winter period, the Plan of measures for maintaining ecological safety in the 2009-2010 autumn-winter period was developed and realized.

Over several years, JSC RusHydro's Sayano-Shushenskaya HPP has carried out ecological monitoring of a zone of influence (surrounding the hydro-complex) for its effect on plant and animal life in the region of the State Natural Reserve and National Park "The Shushenskaya Pine Forest." Monitoring has shown that population groupings of animals and birds are stable.

As part of recovery work at the Sayano-Shushenskaya HPP, the question of carrying out social-ecological monitoring of the accident's effect on the environment is being considered.

*With a view to monitoring possible social-ecological changes in 2009:*

- JSC RusHydro's Bureyskaya HPP has influenced the surrounding natural and social environment through complex works to build and operate the HPP;
- JSC "Geoterm" monitored fishing in the River pool;
- A program has been developed and launched to carry out social-ecological monitoring of zones of influence of the Zaramagsky HPPs;

*With a view to realizing Russian Federal law №184-ФЗ (from December 27<sup>th</sup>, 2002) “On technical regulation” (N 184-FZ), JSC RusHydro organized working out technical regulation standards.*

JSC RusHydro has developed the following ecological standards:

- “HPPs. Monitoring construction and environmental conditions during building. Norms and requirements;”
- “HPPs. Monitoring construction and environmental conditions while in service. Norms and requirements;”
- “Environmental protection. Estimating environmental impact. Methodological instructions;”
- “The Control system of environmental protection. General provisions.”

JSC RusHydro is an active participant in a number of international ecological initiatives. In 2009, work was carried out in several directions under international cooperation with ecological organizations and the business community in the area of environmental protection:

- Participation in working out international ecological standards and hydro-power engineering sustainable development (testing the Sustainable Development Report);
- Participation in working out proposals and recommendations under the cooperation of E8 member countries, and also participating in the international climate change initiative «3C» (headed by Sweden);
- Participation in the work of the international symposium and research projects of the technical committees of the International Committee on Big Dams (ICOLD);
- Experience exchange and participation in seminars in ecology and sustainable development with embassies, leading ecological funds and the business community (including: the Embassy of Great Britain, the European Union, the World Wildlife Fund and the International Power Agency).

The Company has also engaged in teamwork with a coalition of ecological non-governmental organizations under the «White Book. Dams and Development» project.

*Participation in working out international ecological standards and hydro-power engineering sustainable development*

JSC RusHydro is a member of the International Association of Hydro-power (IAH). The principal objective of this organization is to develop mechanisms for reliable and sustainable development of global hydro-power engineering. Within the limits of work to create international standards for stable social, economic and ecological hydro-power development, the Forum for the Assessment of Sustainable Hydro-Power Development (The Hydro-power Sustainability Assessment Forum, HSAF) has been established. The purpose of the Forum is to develop tools to assess hydro-power industry development based on sustainable development criterion.

To realize this purpose, experts from JSC RusHydro and its SDCs in 2009 have conducted document testing - the Sustainable Development Report (further information on this can be

found later in the Annual Report). The Report is positioned not only as the standard to estimate economic, social and ecological aspects of the project at all stages of its life-cycle, but also as a means to evaluate the project's conformity with international norms and requirements in the field of design activity in the hydro-power industry. The result of the expert evaluation of the document was recommendations on the completion of a standard to introduce a transition period, during which hydro-power companies can bring themselves in line with international norms and ecology requirements, as well as ensuring that sustainable development conforms with domestic legislation.

*Participation in working out proposals and recommendations on climate change and a post-Kyoto agreement for leaders of G8 countries (G8) and the Big Twenty (G20) within the limits of the cooperation of E8 members and the international «3C» initiative on climate change.*

During the reporting period, JSC RusHydro has participated in developing recommendations for the business community concerning climate change within the framework of "The Energy Eight" (E8) for business leaders and state representatives in Copenhagen (COP15), the Davos Economic Forum and also at "G8" meetings in Rome 2009.

*Participation within the international symposium and research projects of the technical committees of the International Committee on Big Dams (ICOLD)*

On an annual basis, the Company participates in the Symposium of the International Committee on Big Dams (ICOLD). Beginning in 2009, representatives from JSC RusHydro were included in the work of the Technical Committee «Dams for electric power production.» One of the research themes for this committee was sustainable development in the hydro-power industry. Within the limits of conducting scientific research, the Technical Committee plans to develop a theme of international ecological standards and to exchange experience in social-ecological aspects of the hydro-power industry.

*Experience exchange and participation in ecology seminars and sustainable development with embassies, leading environmental funds and the business community (including: the Embassy of Great Britain, the European Union, the World Wildlife Fund and the International Power Agency)*

In 2009, JSC RusHydro took part in international actions to exchange experience, as well as in training seminars in the field of ecology, climate change and sustainable development which were organized by the Association of European Business (AEB), the Embassy of Great Britain in Moscow and the Representation of the European Commission in Moscow (EU). The Company carries out experience exchange within the framework of a bi-lateral cooperation agreement with the Canadian company Hydro Quebec (the world's largest hydro-power company), including research on the emission of greenhouse gases from the mirror of water basins and the influence that climate change has on water basins.

*The Company has also participated in the «White Book. Dams and development» project together with a coalition of environmental non-governmental organizations.*

At the beginning of 2009, with a view to achieving the Project's purpose, the portal [www.russiandams.ru](http://www.russiandams.ru) was created and opened for interested users. As of now, the portal ([www.russiandams.ru](http://www.russiandams.ru)) is already included in catalogues of teaching materials for high school students engaged in hydro-power engineering, hydraulics and ecology programs.

Thematic reviews are prepared and published on the portal:

- HPP and eternal frozen ground – June 2009;
- Dams and water transport – July 2009;
- HPP dams and the municipal water supply – August 2009;
- HPPs and residents of flood zones – September 2009;
- HPPs and fish – October 2009;
- Estimation of development stability of hydro-power engineering – December 2009;
- HPPs and progress – January 2010;
- Small HPPs – February 2010;
- The influence of dams on water bio-resources – March 2010.

In the future, JSC RusHydro plans to develop long-term cooperation with leading environmental organizations and to work on joint research projects in the area of environmental protection.

### **Taxation**

As part of its ongoing commitment to best practice corporate social responsibility, RusHydro acts as a responsible tax payer to the federal government, as well as to the regions and local communities in which it operates – following all applicable norms of Russian Federation tax legislation. The Company recognizes that for many of the remote regions in which it operates that it is one of the largest tax payers to the local budget – thus, allowing a range of services to be provided to area residents. RusHydro recognizes that building healthy and vibrant communities help create a productive workforce for its operating subsidiaries.

In 2009, the following taxes were paid by JSC RusHydro:

Budgetary level:	RUR mln.
Federal budget	10,291.56
Regional budget	14,448.53
Local budget	22.11

RusHydro recognizes that building healthy and vibrant communities help create a productive workforce at its operating subsidiaries.

Based on the laws of the Russian Federation, JSC RusHydro (INN 2460066195) pays the following taxes: VAT, profit tax, unified social tax (insurance payments), water tax, property tax, transportation tax and land tax.

Type of tax:	RUR mln.
VAT	8,189.09
Profit tax	9,995.85

Property tax	5,520.95
Other taxes	1,056.31

During the reporting period, the Company paid a total of RUR 24,762.20 mln. in taxes, which represents a 32% increase compared with 2008. The increased tax load can be explained by a higher sales volume during 2009.

Additional information regarding any aspects of the Company's corporate social responsibility and/or policies, programs and projects in this area, can be found on the corporate web site.

## **XV. Consolidated 2009 Financials**

**RUSHYDRO GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2009**

**INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders and the Board of Directors of Open Joint Stock Company RusHydro (OJSC RusHydro):**

We have audited the accompanying consolidated financial statements of OJSC RusHydro and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

29 April 2010  
Moscow, Russian Federation

**RusHydro Group**  
**Consolidated Statement of Financial Position as at 31 December 2009**  
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2009	31 December 2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	354,847	337,117
Investments in associates and jointly controlled entities	8	18,470	15,800
Available-for-sale financial assets	9	6,845	2,011
Other non-current assets	10	21,713	14,991
<b>Total non-current assets</b>		<b>401,875</b>	<b>369,919</b>
<b>Current assets</b>			
Cash and cash equivalents	11	48,152	24,838
Accounts receivable and prepayments	12	21,652	25,685
Inventories		1,110	1,035
Other current assets	13	10,466	4,894
<b>Total current assets</b>		<b>81,380</b>	<b>56,452</b>
<b>TOTAL ASSETS</b>		<b>483,255</b>	<b>426,371</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	269,695	245,014
Treasury shares	14	(12,172)	(8,172)
Share premium		12,005	12,005
Retained earnings and other reserves		131,561	93,790
<b>Equity attributable to the shareholders of OJSC RusHydro</b>		<b>401,089</b>	<b>342,637</b>
Minority interest		2,194	976
<b>TOTAL EQUITY</b>		<b>403,283</b>	<b>343,613</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	15	32,716	34,819
Non-current debt	17	19,367	20,015
Other non-current liabilities	18	2,755	2,736
<b>Total non-current liabilities</b>		<b>54,838</b>	<b>57,570</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt	17	2,576	3,377
Accounts payable and accruals	19	19,102	16,240
Current income tax payable		101	361
Other taxes payable	20	3,355	5,210
<b>Total current liabilities</b>		<b>25,134</b>	<b>25,188</b>
<b>TOTAL LIABILITIES</b>		<b>79,972</b>	<b>82,758</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>483,255</b>	<b>426,371</b>

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

**RusHydro Group**  
**Consolidated Income Statement for the year ended 31 December 2009**  
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	21	115,603	107,670
Operating expenses	22	(76,050)	(84,659)
Impairment of property, plant and equipment	7	-	(32,553)
<b>Operating profit / (loss)</b>		<b>39,553</b>	<b>(9,542)</b>
Finance costs	23	(14)	(1,495)
Impairment of available-for-sale financial assets	9	-	(6,464)
Share of loss of associates and jointly controlled entities	8	(616)	(1,531)
<b>Profit / (loss) before income tax</b>		<b>38,923</b>	<b>(19,032)</b>
Total income tax expense	15	(7,739)	(449)
<b>Profit / (loss) for the period</b>		<b>31,184</b>	<b>(19,481)</b>
Attributable to:			
Shareholders of OJSC RusHydro		30,667	(19,956)
Minority interest		517	475
Earnings per ordinary share for profit / (loss) attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)			
	24	0.1229	(0.0925)
Weighted average number of shares outstanding – basic and diluted			
	24	249,523,146	215,648,425

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto

29 April 2010



**RusHydro Group**

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Profit / (loss) for the period		31,184	(19,481)
<b>Other comprehensive income after income tax:</b>			
Change in tax rate		-	4,622
Revaluation of property, plant and equipment, net of tax	7	-	59,113
Gains arising on available-for-sale financial assets, net of tax	9	4,640	-
Share of other comprehensive income of associates and jointly controlled entities	8	9	238
<b>Total comprehensive income for the period</b>		<b>35,833</b>	<b>44,492</b>
Attributable to:			
Shareholders of OJSC RusHydro		35,316	43,751
Minority interest		517	741

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

**RusHydro Group****Consolidated Statement of Cash Flows for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Profit/(loss) before income tax</b>		<b>38,923</b>	<b>(19,032)</b>
Depreciation of property, plant and equipment	7, 22	11,811	9,333
Loss on disposal of property, plant and equipment	22	5,856	303
Finance costs	23	14	1,495
Write-off and impairment of accounts receivable	22	1,008	1,088
Impairment of property, plant and equipment	7	-	32,553
Impairment of available-for-sale financial assets	9	-	6,464
Share of loss of associates and jointly controlled entities	8	616	1,531
Effect of share option plan expenses	6	230	750
Pension expenses	16	122	478
Other expenses		24	390
<b>Operating cash flows before working capital changes and income tax paid</b>		<b>58,604</b>	<b>35,353</b>
Working capital changes:			
Increase in accounts receivable and prepayments		(7,435)	(9,294)
(Increase) / Decrease in other current assets		(660)	2,716
(Increase) / Decrease in inventories		(81)	78
(Increase) / Decrease in other non-current assets		(2,352)	86
Increase in accounts payable and accruals		2,372	3,168
Increase in other taxes payable		284	5,760
Increase in other non-current liabilities		104	1,176
Income tax paid		(10,111)	(11,422)
<b>Net cash generated by operating activities</b>		<b>40,725</b>	<b>27,621</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant and equipment		35	34
Purchase of property, plant and equipment		(31,896)	(25,354)
Purchase of promissory notes and other short-term investments		(6,204)	(7,549)
Purchase of entities under common control		-	(1,821)
Purchase of subsidiaries from third parties, net of cash acquired		-	(1,297)
Proceeds from sale of promissory notes and other short-term investments		2,212	980
Settlement of derivative instruments		(211)	-
Proceeds from loan redemption		-	60
Interest received		3,460	1,924
<b>Net cash used in investing activities</b>		<b>(32,604)</b>	<b>(33,023)</b>

**RusHydro Group**

**Consolidated Statement of Cash Flows for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from short-term debt		320	24,672
Proceeds from long-term debt		-	150
Repayment of debt		(854)	(4,596)
Interest paid		(2,572)	(1,544)
Dividends paid by the Group in favour of minority holders		(215)	(8)
Proceeds from share issue	14,19	23,032	6,014
Purchase of treasury shares	14	(4,000)	-
Proceeds from share issue in subsidiary	14,19	2,380	-
Repayment of advances to RAO UES of Russia under investment agreements		-	(626)
Finance lease payments		(2,898)	(2,089)
<b>Net cash generated by financing activities</b>		<b>15,193</b>	<b>21,973</b>
<b>Increase in cash and cash equivalents</b>		<b>23,314</b>	<b>16,571</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>24,838</b>	<b>8,267</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>48,152</b>	<b>24,838</b>

Chairman of Management Board

E.V. Dod

Chief Accountant

O.V. Otto



29 April 2010

**RusHydro Group**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2009**  
(In millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
<b>As at 1 January 2009</b>		<b>245,014</b>	<b>(8,172)</b>	<b>12,005</b>	<b>(77,449)</b>	<b>151,299</b>	-	<b>19,940</b>	<b>342,637</b>	<b>976</b>	<b>343,613</b>
Total comprehensive income		-	-	-	-	-	4,640	30,676	35,316	517	35,833
Share issue	14	24,681	(4,000)	-	-	-	-	-	20,681	-	20,681
Effect of share options plan	6	-	-	-	-	-	-	230	230	-	230
Effect of changes in minority interest	14	-	-	-	-	-	-	2,225	2,225	914	3,139
Disposal of revaluation reserve due to disposal of property, plant and equipment		-	-	-	-	(3,669)	-	3,669	-	-	-
Dividends	14	-	-	-	-	-	-	-	-	(213)	(213)
<b>As at 31 December 2009</b>		<b>269,695</b>	<b>(12,172)</b>	<b>12,005</b>	<b>(77,449)</b>	<b>147,630</b>	<b>4,640</b>	<b>56,740</b>	<b>401,089</b>	<b>2,194</b>	<b>403,283</b>



## RusHydro Group

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

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#### Note 1. The Group and its operations

Open Joint Stock Company RusHydro (OJSC RusHydro – hereinafter referred to as “the Company”) was incorporated as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as “RAO UES”) on 26 December 2004, based on the Decision of the Board of Directors of RAO UES dated 24 December 2004 in accordance with the Resolution of the Russian Government No. 526 dated 11 July 2001 “On reforming the Russian Federation electric utilities industry” and Resolutions of the Russian Government No. 1254-r dated 1 September 2003 and No. 1367-r dated 25 October 2004.

On 1 July 2008 RAO UES ceased to exist and the Company became controlled by the State (the Russian Federation).

As at 31 December 2009 RusHydro Group (hereinafter referred to as “the Group”) consists of the Company and its subsidiaries. The Group’s principal subsidiaries are presented in Note 4. The Company has 20 branches across the Russian Federation, including: Bureiskaya HPP, Volzhskaya HPP, Dagestan branch, Votkinskaya HPP, Zhigulevskaya HPP, Zagorskaya HAEPP, Zeiskaya HPP, Irganaiskaya HPP, Kabardino-Balkarskii branch, Kamskaya HPP, Karachaevo-Cherkesskii branch, Kaskad VV HPPs, Kaskad Kubanski HPPs, Corporate institute of electrical energy industry, Nizhegorodskaya HPP, Novosibirskaya HPP, Saratovskaya HPP, Sayano-Shushenskaya HPP named after P.S. Neporozhny, Severo-Osetinskii branch, Cheboksarskaya HPP.

The Group’s principal activities are the generation and sale of electricity and capacity on the Russian wholesale electricity market as well as the retail electricity market.

The Company’s registered office is located at 51, Respubliki Street, Krasnoyarsk, Krasnoyarsk region, the Russian Federation.

The ordinary shares of the Company are traded on the MICEX Stock Exchange and the Russian Trading System.

Starting from 6 July 2009 Global Depositary Receipts (hereinafter referred to as “GDRs”) of the Company in accordance with Regulation S and Rule 144A were admitted for trade in the regulated sector of the International Order Book (IOB) of the London Stock Exchange (hereinafter referred to as “LSE”). Each GDR represents 100 ordinary shares of the Company.

On 7 August 2009 the Company launched its new Level 1 American Depositary Receipts (hereinafter referred to as “ADRs”) programme.

The United States Securities and Exchange Commission (SEC) registered the the ADR report and declared it effective as of 7 August 2009. Each ADR under the new programme represents 100 ordinary shares of the Company.

The Company’s existing GDR programme subject to Regulation S was terminated and on 7 August 2009 the GDRs were excluded from the LSE quotation list and cancelled. All GDR holders under Regulation S on the LSE quotation list as of 7 August 2009 received the appropriate quantity of Level 1 ADRs.

Starting from 7 August 2009 the ADRs under the newly launched Level 1 ADR programme have been traded both on the LSE’s Main Market and the over-the-counter market in the United States.

GDRs under Rule 144A GDR programme are traded both on the LSE’s Main Market and PORTAL system.

The Bank of New York Mellon acted as the depositary receipts programmes (ADR, Regulation S GDR and Rule 144A GDR programmes) and CJSC ING Bank (Eurasia) served as the global custodian bank for the ADR programme.

The Group was formed for the purposes of implementing the Russian Government policy in the hydropower industry, creating the conditions for effective functioning of the wholesale electricity generation market, implementing investments and capital raising strategy for the purposes of development of the hydropower industry, development and realisation of scientific and technological policy and implementation of new advanced equipment and technology, including exploration of renewable energy sources.

**Accident at Sayano-Shushenskaya HPP.** On 17 August 2009 an accident occurred at Sayano-Shushenskaya HPP. At the time of the accident 9 hydro turbine units were operating at Sayano-Shushenskaya HPP (hydro turbine unit No. 6 was on standby).

As a result of the accident the water emitted from the turbine crater due to the hydro turbine unit GA-2 being operated not in the recommended mode. The main generator hall was flooded. Due to the water pressure,

the rotating cross and rotors of the hydro turbine unit GA-2 the building of the main generator hall in the area of hydro turbine units GA-2, 3 and 4 was destroyed. Modules of hydro turbine units No. 7 and No. 9 were destroyed. As a result of water entry all hydro turbine units of the HPP received electric and mechanical damage of a different degree. Thus, as a result of the accident the majority of technological systems of the station were flooded or significantly damaged.

The total installed capacity of wrecked hydro turbine generators was 6,400 MW.

As a result of the accident 75 people were killed.

The Company organised the Stock Taking Commission (hereinafter referred to as "the Commission") from technical specialists and performed a stock-take. The Commission on the basis of the inspection with the use of related technical documents and diagnostic instruments determined expediency of the use of each asset and their potential recoverability. Following the above analysis the Company grouped all damaged assets as follows:

- subject to liquidation;
- subject to recovery by reconstruction and modernisation.

Following the stock take results the Company wrote-off totally unusable and non-recoverable property, plant and equipment items and made a partial write-off of property, plant and equipment items damaged as a result of the accident for the total amount of RR 5,604 million, including assets under construction in the amount of RR 148 million.

As a result of the accident Sayano-Shushenskaya HPP stopped generating electric power. In order to ensure fulfilment of its obligations under the contracts the Company had to buy the required electric power on the day-ahead market and the balancing market.

The total investment budget for a complete restoration of the damaged equipment (including costs of installation and other work) are preliminary assessed by the Company management in the amount of RR 40,000 million.

Following the examination of the prepared design and estimate documentation and its review in the Main Department of State Expertise (Glavgosexpertisa), the investment budget for a complete restoration of the station's equipment (including costs of installation and other work) will be updated.

The Company intends to finance restoration works both from equity and borrowings.

The plan of restoration works at Sayano-Shushenskaya HPP includes repairing and putting into temporary operation generators GA-6, 5, 4, 3 in 2010 (in February 2010 hydro turbine generator GA-6 was put into production run, in March 2010 – GA-5 (Note 32)).

Restoration of Sayano-Shushenskaya HPP is planned to be finalised by the end of 2014.

In accordance with the plan of restoration works the main tasks are to ensure safe operation of hydrotechnical constructions and water reservoir of Sayano-Shushenskaya HPP, to ensure safe maintenance of hydro power plant building, the main generator hall and equipment, operational capability of supporting systems as well as work, industrial and fire safety.

On 22 October 2009 the Company received the Report on the technical investigation of the causes of the accident at Sayano-Shushenskaya HPP from the Federal Service of Environmental, Technical and Nuclear Oversight (Rostekhnadzor).

On 28 December 2009 the Company received the report of the Commission of the State Duma of the Federal Assembly of the Russian Federation on its investigation of the circumstances related to the emergency situation generated by technology at Sayano-Shushenskaya HPP on 17 August 2009.

As of 31 December 2009 payments to families of those killed in the accident totalled RR 115 million.

There is a possibility of a large number of claims in connection with the accident. The subject of such claims may include:

- compensation of damage caused to life and health;
- compensation of losses from termination of contracts;
- other proceedings.

Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and

this also may result in additional claims against the Company and its employees.

**Operating environment of the Group.** The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- (i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- (ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.
- (iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.37 for USD 1.00 at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- (iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Reduced revenue budgets and more challenging situation in the markets for entity's products and services have led management to perform an impairment test of the Group's property, plant and equipment (Note 7). The Group recognised no impairment loss for the year ended 31 December 2009 (for the year ended 31 December 2008: RR 32,553 million).

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

**Relations with the State and current regulation.** As at 31 December 2009 the Russian Federation owned 60.38 percent of the total voting ordinary shares of the Company (31 December 2008: 61.32 percent). The Group's major customer base and its contractors and suppliers include entities controlled by, or related to the State, which provide the Group with electricity dispatch, transmission and distribution services (Note 6).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- its tariff regulation within wholesale electricity and capacity as well as retail electricity markets;
- agreement procedures for the Company's investment programme, volume and sources of their financing, control over its implementation;
- existing antimonopoly regulation.

The Federal Service on Tariffs (hereinafter referred to as "FST") regulates electricity and capacity tariffs by setting minimum and maximum levels of tariffs for final consumers and wholesale market, and the Regional Energy Commissions (hereinafter referred to as "RECs") set tariffs for electricity for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. The Group companies sell electricity and capacity both at free trading terms and at tariffs governed by both regulations specific to the electricity industry and regulations applicable to natural monopolies.

Since 2008 FST has calculated tariffs based on a tariff indexation formula, as opposed to the former "cost-plus" tariff system under which tariff increases were linked to the costs of a power station. Tariff indexation formulas are based on, among other things, the forecasted level of inflation, changes in the tax regime and

the amount of investment required to maintain, and in some cases, to develop the existing generation assets. The indexation formulas are applied by reference to the costs under Russian standards of accounting (hereinafter referred to as "RSA") that were used in the "cost-plus" tariffs for 2007, which is considered the reference year for the purposes of the indexation method.

The procedure for approving the Company's investment programme is regulated by Government Resolution No. 977 dated 1 December 2009. The Company's investment programme is subject to agreement with the state regulators: Russian Ministry of Energy (former Russian Ministry of Industry and Energy before restructuring), Russian Ministry of Economic Development, Russian Ministry of Finance, Russian Ministry of Industry and Trade, Federal Anti-Monopoly Service, FST, State Agency for Nuclear Energy Rosatom and local authorities. The Company's investment programme for 2010 was approved in March 2010 (Note 32).

As described above, the Russian Government's economic, social and other policies could have a material effect on the Group's operations.

**Sector restructuring.** In recent years, the Russian electricity industry has undergone a restructuring process regulated by the Government Resolution No. 526 "On Restructuring of the Electric Power Industry of the Russian Federation" dated 11 July 2001 (Resolution No. 526). Resolution No. 526 aimed to (i) reform the market structure, (ii) implement the liberalisation of the competitive segments of the electricity and capacity sector, including generation, sales, repairs and servicing, and (iii) improve regulatory pricing for the non-competitive lines of business of the electricity industry.

Resolution No. 526 completely transformed the overall structure of the power industry through the breaking-up the whole vertically-integrated system of power companies (AO-Energos) controlled by RAO UES and creating mono-profile companies with the following activities: generation, transmission, distribution, retail sales, repairs and servicing operations. The restructuring process was completed on 1 July 2008 when RAO UES demerged into more than 20 independent companies each engaged in either the competitive sector (power generation) or non-competitive sector (transmission and distribution).

A crucial step in developing a competitive wholesale electricity and capacity market was the adoption of the new Wholesale Electric Power and Capacity Market (NOREM) Rules of the Transitional Period (hereinafter referred to as "Rules") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 and which came into force on 1 September 2006. Under the new wholesale market framework four sectors of the electricity market were introduced:

- Regulated contracts (sales of pre-determined volumes at tariffs approved by FST),
- One-day-ahead market (electricity competitive trading, non-regulated prices),
- Balancing (deviation) electricity market (non-regulated prices), and
- Unregulated bilateral contracts (sale (purchase) of electricity and capacity at non-regulated prices).

The period from 1 September 2006 to the end of 2010 is a transitional period until the liberalisation of the wholesale electricity and capacity market is fully completed.

At the beginning of the transitional period Regulated Contracts covered almost all volume of electricity and capacity produced and sold. According to the Rules, the volumes of electricity to be covered by Regulated Contracts are expected to decline further according to the following schedule:

- from 1 January 2010 – up to 35-40 percent;
- from 1 July 2010 – up to 15-20 percent; and
- from 1 January 2011 the wholesale electricity and capacity market is expected to be fully liberalised.

On 28 June 2008 amendments to the above mentioned Rules were approved by the Government Resolution No. 476, which provide for the introduction of competitive mechanisms of capacity trading on the new wholesale market during the transitional period in the contracted volumes at regulated tariffs.

The competitive mechanisms of capacity trading under the Rules provide the suppliers with guaranteed payments at tariffs not exceeding the regulated tariffs approved by FST for capacity included in the annual forecast balance as at 1 January 2007. At the same time sales of the above capacity volumes can be made through bilateral agreements with customers at non-regulated tariffs, not limited by FST tariffs. The prices changed for capacity by new generating units which were put into operation after 1 January 2007 is not limited by regulated tariffs but should be economically justified. The compliance of suppliers with the above criteria is monitored by the wholesale trade organisation – Non-profit Partnership Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market (hereinafter referred to

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)*

as "NP Council Market").

Currently, the Russian Government and market participants are discussing and defining rules for a new model of the competitive capacity market, which will become effective from 2011.

In addition, the Rules do not currently contemplate the liberalisation of electricity and capacity tariffs in the Far East region of the Russian Federation, where several power stations of the Group are located.

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place so that the Group will be able to raise the necessary financing to sustain the business. However, there can be no assurance in this regard.

**Seasonality of business.** The Group's own electricity and capacity generation depends on water flow in the river systems and weather conditions. In spring and in summer (flood period) electricity production is significantly higher than in autumn and in winter. Demand for electricity and capacity also varies with seasons and weather conditions. The seasonal nature of electricity generation and demand has a significant influence on the volume of energy generated and purchased by the Group.

**Note 2. Basis of preparation****Statement of compliance**

These consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") and related interpretations adopted by the International Accounting Standards Board (hereinafter referred to as "IASB").

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with RSA. The accompanying financial statements are based on the statutory records with adjustments and reclassification recorded for the purpose of fair presentation in accordance with IFRS.

**Functional and presentation currency**

The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles.

**Reclassifications**

The Group has revised its approach to grouping different classes of property, plant and equipment. Certain classes of assets of similar nature and use in the Group's operations were combined in new groups. In accordance with the previously adopted classification, production buildings included significant amounts of facilities which were reclassified to the corresponding group in accordance with the newly adopted classification.

*Property, plant and equipment groups for IFRS purposes  
(in accordance with previously adopted classification)*

	31 December 2008	31 December 2007
Production buildings	73,331	54,815
Hydrotechnical buildings	126,004	105,525
Electricity grids	3,122	2,404
Substation's equipment	73,003	58,448
Assets under construction	48,440	41,567
Other	13,217	8,820
<b>Total</b>	<b>337,117</b>	<b>271,579</b>

*Property, plant and equipment groups for IFRS purposes  
(in accordance with newly adopted classification)*

	31 December 2008	31 December 2007
Production buildings	33,539	23,451
Facilities	169,207	135,733
Plant and equipment	83,365	70,331
Assets under construction	48,440	41,567
Other	2,566	497
<b>Total</b>	<b>337,117</b>	<b>271,579</b>

The Group's management believes that the revised presentation provides for more relevant and meaningful information about the changes in the financial position of the Group.

### **Adoption of New or Revised Standards and Interpretations**

Certain new standards and interpretations became effective for the Group from 1 January 2009:

**Adoption of IFRS 8, Operating Segments.** Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body (the Board of Directors). EBITDA calculated based on RSA is used for making decisions regarding distribution of resources and for assessing results of each separate segment. The Board of Directors generally analyses information by groups of operations which are consolidated in separate reporting segments: Generation, Retailing, Research and Development Institutes, Repairs, Contractors.

Revenues of Generation and Retailing operating segments in the regulated sector of the wholesale electricity market and in the regional retail electricity market are formed on the basis of tariffs approved by FST and RECs respectively, in the unregulated sector of wholesale electricity market – on the basis of competitive prices defined on the demand / supply basis.

Revenue of Research and Development Institutes, Repairs, Contractors operating segments is formed on the basis of contracts signed with customers of the companies.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are disclosed in the segment information disclosure (Note 5).

Economic justification of each segment's expenses is based on the business plans of each segment. The Board of Directors approves the plan figures and subsequently analyses actual information against the plans on a regular basis.

Segment assets and liabilities include all assets and liabilities recognised under RSA. Segment assets, information on which is regularly reviewed by the Board of Directors, consist primarily of property, plant and equipment, assets under construction, trade accounts receivable and advances issued. Segment liabilities consist primarily of current and non-current debts, accounts payable and accruals.

**Adoption of IAS 23, Borrowing Costs (revised in March 2007).** The main change is the removal of the option of immediately recognising as an expense borrowing costs related to assets that take a substantial period of time to get ready for use or sale. The following revised accounting policy for borrowing costs is applied prospectively from 1 January 2009.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

**Adoption of IAS 1, Presentation of Financial Statements (revised in September 2007 and effective for annual periods beginning on or after 1 January 2009).** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The

Group has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously "balance sheet") at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's Consolidated Financial Statements, but had no impact on the recognition or measurement of specific transactions and balances.

**Improvements to International Financial Reporting Standards (issued in May 2008).** In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Improvement to IFRS 5 in respect of classification as held for sale in case of a loss of control over a subsidiary (effective for annual periods starting from 1st July 2009) was not early adopted by the Group.

**Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment.** The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on the Consolidated Financial Statements.

**Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment.** The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on the Consolidated Financial Statements.

**IFRIC 13, Customer Loyalty Programmes.** IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on the Consolidated Financial Statements.

**IFRIC 15, Agreements for the Construction of Real Estate.** The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on the Consolidated Financial Statements.

**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment, issued in May 2008.** The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on the Consolidated Financial Statements.

**Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009.** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (i) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (ii) requires disclosure of remaining contractual

maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in the Consolidated Financial Statements.

***Embedded Derivatives – Amendments to IFRIC 9 and IAS 39, issued in March 2009.*** The amendments clarify that on reclassification of a financial asset out of the “at fair value through profit or loss” category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on the Consolidated Financial Statements.

***IFRIC 16, Hedges of a Net Investment in a Foreign Operation.*** The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on the Consolidated Financial Statements.

***The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009)*** is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The IFRS for SMEs is not applicable to the Group.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's Consolidated Financial Statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

***IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).*** The amendment clarifies when and how any distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

***IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).*** The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Consolidated Financial Statements.

***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).*** This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on the Consolidated Financial Statements.

***IAS 27, Consolidated and Separate Financial Statements and consequential amendments to IAS 28, Investments in associates (revised in January 2008; effective for annual periods beginning on or after 1 July 2009).*** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. Revised requirements also specify how an entity should measure any gain or loss arising on the loss of control of a subsidiary or loss of significant influence over an associate.

**IFRS 3, Business Combinations (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

**Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Consolidated Financial Statements as the Group does not apply hedge accounting.

**IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).** The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and better accommodate future changes. The Group concluded that the revised standard does not have any effect on the Consolidated Financial Statements.

**Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).** The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on the Consolidated Financial Statements.

**Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).** The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on Consolidated Financial Statements.

**Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to

state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

**Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (ii) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted the amendment to IAS 24 regarding partial exemption for government related entities. The new requirement is to disclose for government related entities only individually significant transactions and transactions that may be collectively significant.

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010).** The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, *Determining Whether an Arrangement Contains a Lease* when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Consolidated Financial Statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Consolidated Financial Statements.

The Group has not early adopted any of the new standards and interpretations disclosed in the "Adoption of New or Revised Standards and Interpretations" note in its last annual Consolidated Financial Statements and effective for its annual periods beginning on or after 1 January 2010, except early adoption of IAS 24 regarding partial exemption for government related entities.

#### **Critical accounting estimates and assumptions**

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*Impairment of financial assets carried at amortised cost*

Impairment is recognised as a result of the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Based on external sources of information about considerable changes in the economic situation in Russia as a result of the global financial crisis, it was decided to perform an impairment test for non-current assets.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 10 and 12.

*Impairment of non-financial assets*

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell (Note 3).

Accounting for impairment of non-financial assets includes impairments of property, plant and equipment, investments in associates and inventory obsolescence.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

*Impairment of available-for-sale equity investments*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

The decision on impairment is made on a case-by-case basis to determine whether a decline in the fair value of an available-for-sale financial asset below its cost is significant or prolonged.

The effect of these critical accounting estimates and assumptions is disclosed in Note 9.

*Provisions for liabilities and charges*

The Group accrues a provision for legal and other charges when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

The effect of these critical accounting estimates and assumptions is disclosed in Note 27.

*Tax contingencies*

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the Consolidated Financial Statements.

The effect of these critical accounting estimates and assumptions is disclosed in Note 27.

*Recognition of deferred tax assets*

At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a jurisdiction-by-jurisdiction basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 15.

*Useful life of property, plant and equipment*

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

**Note 3. Summary of significant accounting policies**

**Principles of consolidation.** The Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. Also subsidiary undertakings include entities in which the Group controls less than 50 percent of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group and are deconsolidated from the date that control effectively ceases. The minority interest has been disclosed as a separate component of equity.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated when preparing the consolidated financial statements.

**Investments in associates and jointly controlled entities.** Investments in associates and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence on, jointly controlled entities and associates.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

**Available-for-sale financial assets.** Available-for-sale financial assets are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

**Derivative financial instruments.** Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated income statement. Derivatives are not accounted for as hedges.

**Transfers between parties under common control.** Transfers of subsidiaries between parties under common control are accounted for using the predecessor values basis of accounting method. Under this

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### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

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method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's IFRS carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital issued is accounted for in the consolidated financial statements as an adjustment to equity (a merger reserve).

**Foreign currency.** Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

As at 31 December 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between RR and US Dollar (hereinafter referred to as "USD") was RR 30.24: USD 1.00 (31 December 2008: RR 29.38: USD 1.00), between RR and EURO was RR 43.39: EURO 1.00 (31 December 2008: RR 41.44: EURO 1.00).

**Property, plant and equipment.** Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment (except for assets under construction, office buildings and land) which are now stated at revalued cost. Management of the Group assumes that use of revaluation model of property, plant and equipment provides more relevant information.

Prior to 1 January 2007 property, plant and equipment were stated at depreciated cost less impairment. Property, plant and equipment transferred to the Group from the predecessor entities were recognised at the carrying value determined in accordance with IFRS at the date of their transfer. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income, unless there is a decrease of the reserve previously recognised in the income statement. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs (that take less than 12 months) and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

The revised average useful lives, in years, of revalued assets by type of facility were as follows:

<b>Type of facility</b>	<b>Revised average starting from 1 January 2009</b>
Production buildings	30-80
Facilities	31-80
Plant and equipment	5-30
Other	3-30

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

Up to 31 December 2008, borrowing costs incurred for the financing of construction of property, plant and equipment are expensed but not capitalised within the cost of property, plant and equipment. Starting from 1 January 2009 the Group capitalises borrowing costs related to new qualifying assets for which construction commenced on or after 1 January 2009.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation is charged once an asset is available for service.

**Impairment of property, plant and equipment.** Impairment of property, plant and equipment is calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7).

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

**Accounts receivable and prepayments.** Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue, from 45 to 90 days overdue) are considered indicators that the trade receivable is impaired. Management assess the receivables using the above indicators, and make a decision about the amount of impairment at the end of each reporting period. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables.

**Inventories.** Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

**Current and deferred income tax.** The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a

## RusHydro Group

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

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business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

Deferred tax is not provided for the undistributed earnings of subsidiaries and jointly controlled entities, as it is probable that the temporary difference will not be reversed in the foreseeable future (Note 15).

**Debt.** Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement as an interest expense over the period of the debt obligation.

**Employee benefits.** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

**Pension and post-employment benefits.** In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the income statement.

The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the value of plan assets or 10 percent of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

**Share-based payment transactions.** The share option programme allows the Group employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding

rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

**Environmental liabilities.** Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

**Revenue recognition.** Revenue is recognised on the delivery of electricity and capacity and on the dispatch of goods and non-utility services during the period. Revenue from retailing operations is recognised on delivery of electricity to the customer. Revenue amounts are presented exclusive of value added tax.

**Earnings per share.** The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the parent company of the Group by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

**Treasury shares.** Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

**Minority interest.** Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the minority's ownership percentage of these subsidiaries.

**Purchases and sales of minority interests.** The Group applies economic entity model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as gain or loss directly in equity. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the statement of changes in equity.

**Dividends.** Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or at the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised for issue.

**Social expenditure.** To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

**Financial guarantees.** Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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#### Note 4. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements. All subsidiaries are incorporated and operate in the Russian Federation, except for HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd, which are established under legislation of the Republic of Cyprus.

	31 December 2009		31 December 2008	
	% of ownership	% of voting	% of ownership	% of voting
OJSC B. E. Vedeneev Russian Research Institute of Hydrotechnic Engineering	100.00%	100.00%	100.00%	100.00%
CJSC HydroEngineering Sibir (former CJSC Boguchanskaya HPP)	100.00%	100.00%	100.00%	100.00%
CJSC Boguchanskaya HPP Construction Organiser	51.00%	51.00%	51.00%	51.00%
CJSC Boguchanskaya Aluminium Plant Construction Customer	51.00%	51.00%	51.00%	51.00%
OJSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
OJSC Electroremont VKK	100.00%	100.00%	100.00%	100.00%
OJSC ESKO UES	100.00%	100.00%	100.00%	100.00%
OJSC Geoterm**	79.84%	79.84%	71.61%	71.61%
OJSC Gidroinvest	100.00%	100.00%	100.00%	100.00%
OJSC Gidroremont VKK	100.00%	100.00%	100.00%	100.00%
HydroOGK Power Company Ltd	100.00%	100.00%	100.00%	100.00%
HydroOGK Aluminium Company Ltd	100.00%	100.00%	100.00%	100.00%
OJSC Karachaevo-Cherkesskaya Hydrogenerating Company	100.00%	100.00%	100.00%	100.00%
OJSC Malaya Mezenskaya TidalPP	100.00%	100.00%	100.00%	100.00%
OJSC MosoblGidroproekt	62.54%	62.54%	62.54%	62.54%
OJSC Nizhne-Bureiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Zeiskaya HPP	100.00%	100.00%	100.00%	100.00%
OJSC Engineering Centre of Renewable Sources of Energy (former OJSC Novy binarny energoblok)	100.00%	100.00%	100.00%	100.00%
OJSC Prometey	100.00%	100.00%	100.00%	100.00%
OJSC REMIK	100.00%	100.00%	100.00%	100.00%
OJSC HydroWGC Management Company	100.00%	100.00%	100.00%	100.00%
OJSC RESK	90.52%	90.52%	90.52%	90.52%
OJSC SSh ATC	100.00%	100.00%	100.00%	100.00%
OJSC SShGER	100.00%	100.00%	100.00%	100.00%
OJSC NIIES	100.00%	100.00%	100.00%	100.00%
LLC SpetsEnergoService	100.00%	-	100.00%	-
OJSC Sulaksky Gidrokaskad	100.00%	100.00%	100.00%	100.00%
CJSC Technopark Rumyantsevo	100.00%	100.00%	100.00%	100.00%
OJSC Turboremont VKK	100.00%	100.00%	100.00%	100.00%
OJSC Verhne-Mutnovskaya GeoES**	86.18%	95.81%	56.03%	59.16%
OJSC Zagorskaya HAEPP-2	100.00%	100.00%	100.00%	100.00%
OJSC Zaramagskie HPPs	95.45%	95.45%	95.45%	95.45%
OJSC Yuzhno-Yakutsky GEK	100.00%	100.00%	100.00%	100.00%
OJSC Kolymaenergo	64.27%	64.27%	64.27%	64.27%
OJSC Ust'-Srednekanskaya HPP**	48.75%	72.82%	51.86%	77.85%
OJSC Ust'-Srednekangesstroy*	64.27%	100.00%	64.27%	100.00%
OJSC Krasnoyarskenergobyt*	51.75%	66.36%	51.75%	51.75%
OJSC ESK RusHydro	100.00%	100.00%	100.00%	100.00%
LLC Index Energetiki – HydroWGC	100.00%	-	100.00%	-
	75.00%-	75.00%-	75.00%-	75.00%-
OJSC Chirkeygesstroy	1 share	1 share	1 share	1 share
OJSC Lengidroproekt	100.00%	100.00%	100.00%	100.00%
OJSC Nizhne-Kureiskaya HPP***	100.00%	100.00%	-	-
OJSC Pauzhetskaya GeoES***	100.00%	100.00%	-	-
OJSC Dalnevostochnaya WPS***	100.00%	100.00%	-	-
LLC Management on restoration and reconstruction of Sayano-Shushenskaya HPP***	100.00%	-	-	-

\* Difference between the ownership interest and voting interest represents the effect of preference shares and/or effects of indirect ownership, or non-corporate partnership (LLC).

\*\* Changes in ownership and voting rights (Note 14).

\*\*\* New subsidiaries established and acquired in the year ended 31 December 2009.

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

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**Note 5. Segment information**

The Board of Directors generally analyses information by groups of operations which are consolidated in the following separate reporting segments:

- Generation segment includes the Company and its subsidiaries with production and sale of electricity and capacity operations;
- Retailing segment includes the Group's subsidiaries – participants of the wholesale electricity market where they buy electricity and capacity and resale it to final customers. Entities included in this segment have the status of "underwriting suppliers" which are obliged to sign contracts on supplies with all final customers of their region upon their request;
- Research and Development Institutes segment comprises the Group's subsidiaries primarily engaged in research and development related to the electric power industry and construction of hydropower facilities;
- Repairs segment includes the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- Contractors segment includes the Group's subsidiaries engaged in hydropower stations construction.

All other segments include a number of minor segments which do not have similar economic characteristics.

All other segment assets include assets under construction which will be transferred to generation segment on their completion. All other segment liabilities consist primarily of intercompany current and non-current debts, accounts payable and accruals.

Management reviews the segment financial information which is prepared in accordance with the RSA. Such information differs in certain aspects from the IFRS:

- changes in the fair values of available-for-sale financial assets that are reported within the segments' profits or losses rather than in comprehensive income;
- income taxes are not allocated to segments;
- liabilities for the Group's post-employment obligations are not recognised;
- provisions for accounts receivable are recognised based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investment in associates are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

Segment information for the years ended 31 December 2009 and 31 December 2008 based on the amounts of the RSA business plans is presented below:

	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
<b>Year ended 31 December 2009</b>							
Revenue from external customers	79,254	32,388	1,164	628	1,945	659	116,038
Intersegment revenue	1,661	-	1,190	2,740	5,052	855	11,498
<b>Total revenue</b>	<b>80,915</b>	<b>32,388</b>	<b>2,354</b>	<b>3,368</b>	<b>6,997</b>	<b>1,514</b>	<b>127,536</b>
<b>EBITDA (RSA)*</b>	<b>50,838</b>	<b>1,175</b>	<b>209</b>	<b>235</b>	<b>215</b>	<b>310</b>	<b>52,982</b>
<b>Total reportable segment assets</b>	<b>498,387</b>	<b>6,285</b>	<b>1,435</b>	<b>1,223</b>	<b>5,079</b>	<b>85,778</b>	<b>598,187</b>
<b>Total reportable segment liabilities</b>	<b>36,931</b>	<b>3,573</b>	<b>816</b>	<b>977</b>	<b>4,014</b>	<b>66,400</b>	<b>112,711</b>
<b>Capital expenditure**</b>	<b>18,912</b>	<b>75</b>	<b>64</b>	<b>149</b>	<b>109</b>	<b>13,746</b>	<b>33,055</b>

\* EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated as gross profit under RSA before depreciation.

\*\* Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

	Generation	Retailing	Research and Development Institutes	Repairs	Contractors	All other segments	Total Group
<b>Year ended 31 December 2008</b>							
Revenue from external customers	63,674	38,969	475	282	2,370	671	106,441
Intersegment revenue	809	-	2,447	1,329	5,271	611	10,467
<b>Total revenue</b>	<b>64,483</b>	<b>38,969</b>	<b>2,922</b>	<b>1,611</b>	<b>7,641</b>	<b>1,282</b>	<b>116,908</b>
<b>EBITDA (RSA)*</b>	<b>32,004</b>	<b>1,272</b>	<b>497</b>	<b>91</b>	<b>476</b>	<b>331</b>	<b>34,671</b>
<b>Total reportable segment assets</b>	<b>464,687</b>	<b>4,429</b>	<b>1,647</b>	<b>526</b>	<b>2,867</b>	<b>68,142</b>	<b>542,298</b>
<b>Total reportable segment liabilities</b>	<b>38,280</b>	<b>2,369</b>	<b>883</b>	<b>399</b>	<b>1,816</b>	<b>49,131</b>	<b>92,878</b>
<b>Capital expenditure**</b>	<b>18,750</b>	<b>79</b>	<b>107</b>	<b>22</b>	<b>88</b>	<b>12,984</b>	<b>32,030</b>

\* EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated as gross profit under RSA before depreciation.

\*\* Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

A reconciliation of the reportable segments results to the Consolidated Financial Statements for the years ended 31 December 2009 and 31 December 2008 is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Total revenues from reportable segments (RSA)</b>	<b>126,022</b>	<b>115,626</b>
Revenues from all other segments	1,514	1,282
Differences in revenue recognition under IFRS	(338)	1,126
Elimination of intersegment revenues	(11,498)	(10,467)
Other	(97)	103
<b>Total revenue (IFRS)</b>	<b>115,603</b>	<b>107,670</b>

	Year ended 31 December 2009	Year ended 31 December 2008
<b>EBITDA for reportable segments (RSA)</b>	<b>52,672</b>	<b>34,340</b>
EBITDA from all other segments	310	331
Finance lease adjustment	1,218	1,418
Impairment charge related to property, plant and equipment (Note 7)	-	(32,553)
Effect of share option plan (Note 6)	(230)	(750)
Write-off and impairment of accounts receivable (Note 22)	(1,008)	(1,088)
Depreciation and amortisation (under IFRS) (Note 22)	(11,811)	(9,333)
Other	(1,598)	(1,907)
<b>Operating profit / (loss) (IFRS)</b>	<b>39,553</b>	<b>(9,542)</b>

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2009	31 December 2008
<b>Total reportable segment liabilities (RSA)</b>	<b>46,311</b>	<b>43,747</b>
Liabilities from all other segments	66,400	49,131
Deferred tax	31,195	34,048
Finance lease adjustment	2,156	2,922
Pension adjustment	1,560	1,321
Adjustment on derivative financial instruments	1,180	422
Financial instruments at amortised cost	(2,254)	(2,552)
Elimination of intercompany balances	(67,296)	(47,432)
Other	720	1,151
<b>Total liabilities (IFRS)</b>	<b>79,972</b>	<b>82,758</b>

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2009	31 December 2008
<b>Total reportable segment assets (RSA)</b>	<b>512,409</b>	<b>474,156</b>
Assets from all other segments	85,778	68,142
Adjustment on investments in associates	5,720	(18,666)
Finance lease adjustment	2,172	2,306
Property plant and equipment adjustments	1,151	5,760
Fair value of available-for-sale financial assets	(535)	(11,109)
Write-off and impairment of accounts receivable	(999)	(1,131)
Unrealised profit adjustment	(1,530)	(1,286)
Reversal of interest expenses capitalised in RSA	(2,890)	(2,188)
Financial instruments at amortised cost	(4,675)	(692)
Treasury shares adjustment	(12,651)	(8,761)
Elimination of investments in subsidiaries	(33,068)	(32,542)
Elimination of intercompany balances	(67,296)	(47,432)
Other	(331)	(186)
<b>Total assets (IFRS)</b>	<b>483,255</b>	<b>426,371</b>

**Note 6. Related party transactions**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Before 30 June 2008, the Group was under the control of RAO UES which was liquidated as at 1 July 2008. Therefore, the related parties of the Group included RAO UES and its subsidiaries and associates till 30 June 2008.

The Group's principal related parties for the year ended 31 December 2009 were jointly controlled entities and associates of the Group (Note 8) and other entities controlled by the State.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the year ended 31 December 2009 and year ended 31 December 2008, had significant balances outstanding as at 31 December 2009 and 31 December 2008 is detailed below.

**RAO UES**

The Group's retailing companies paid transmission fees to RAO UES during the six months ended 30 June 2008 in the amount of RR 756 million.

**RAO UES subsidiaries and associates**

Transactions with subsidiaries and associates of RAO UES were as follows:

	Note	Six months ended 30 June 2008
Sales of electricity and capacity	21	11,151
Other revenue	21	3
Purchased electricity and capacity	22	2,806
Electricity distribution expenses	22	3,442
Other expenses		28

Transactions with former RAO UES subsidiaries and associates which are controlled by the State for the second half of the year ended 31 December 2008 and for the year ended 31 December 2009 are included in transactions with state-controlled entities.

**State-controlled entities**

In the normal course of business the Group enters into transactions with entities controlled by the State. Prices for electricity are based on tariffs set by FST and RECs. Loans are provided at market rates. Taxes are accrued and paid under the Russian tax legislation. The transmission and distribution of electricity are subject to tariff regulations.

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The Group had the following significant balances with state-controlled entities:

	Note	31 December 2009	31 December 2008
Other non-current and current assets (promissory notes and deposits)	10,13	7,490	7,740
Cash and cash equivalents	11	44,606	23,409
Trade and other accounts receivable	12	2,694	2,806
Advances to suppliers	12	130	-
Payables to the Federal Agency for State Property Management in respect of share issuance	19	4,330	6,000
Payables to the Federal Energy Agency	19	1,590	2,450
Trade and other accounts payable	19	1,673	365
Advances received	19	39	148
Non-current and current debt	17	1,282	1,669

The Group had the following significant transactions with state-controlled entities:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity	21	28,905	12,896
Other revenue	21	2,695	2,439
Purchased electricity and capacity	22	7,119	3,211
Electricity distribution expenses	22	9,367	4,366
Services of SO-UES	22	1,941	2,350
Interest income	23	3,873	984
Other expenses		1,504	594

**Associates**

The Group had the following balances with its associates:

	Note	31 December 2009	31 December 2008
Trade and other accounts receivable	12	116	32
Other current assets	13	40	40
Trade and other accounts payable	19	-	22

The Group had the following transactions with its associates:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Other revenue	21	15	8
Purchased electricity and capacity	22	471	158
Other expenses		4	7

**Jointly controlled entities**

The Group had the following balances with its jointly controlled entities:

	Note	31 December 2009	31 December 2008
Trade and other receivables	12	32	-
Promissory notes receivable	10,12	9,592	7,280
Advances received	19	242	218
Trade and other accounts payable	19	6	16

The Group had the following transactions with its jointly controlled entities:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity	21	96	104
Other revenue	21	311	384
Other expenses		3	6

**Key management of the Group.** Compensation is paid to the members of the Management Board of the

## RusHydro Group

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

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Company for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on work results for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings are paid depending on the results for the year.

Total remuneration paid to the members of the Management Board and Board of Directors of the Company for the year ended 31 December 2009 was RR 115 million (for the year ended 31 December 2008: RR 96 million).

**Employee's Share Option Programme.** In May 2007 the Company's Board of Directors approved the Share Option Programme of the Company (hereinafter referred to as "the Programme") in which members of the Management Board and other key employees of the Group are participants (hereinafter referred to as "the Programme participants").

The Programme provides for the granting of share options at predetermined fixed price to the Programme participants starting from the date of signing the first share option contract, i.e. from 3 September 2007.

In accordance with the Programme the Programme participants sign agreements to purchase the Company's shares under which the property title to the shares is transferred and payment is made after 3 years, starting from 3 September 2007.

Participation in the Programme and the exact number of shares in the participants' individual share option agreements are determined by decision of the Chairman of Management Board of the Company.

A total of up to 3,137,287,475 ordinary shares were allocated under the Programme as at 3 September 2007. 917,656,581 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining – to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares obtained by LLC EZOP, operator of the Programme, as a result of the Company's additional share issue.

The number of shares, which the Programme participants may purchase within the framework of the Programme, is calculated proportionally based on the number of days worked prior to terminating the employment. In the case of breaching certain defined provisions of the labor agreement and terminating employment at the initiative of the Group, the Programme participants will lose their right to purchase the shares.

One of the vesting terms of the share option is prepayment by the members of the Company's Management Board (in the amount of 10 percent of the share option agreement) and by other Programme participants (in the amount of 0.2 percent of the share option agreement).

In 2007 the Company issued non-interest bearing loans, which should be used by individuals to make prepayments for the share options agreements to the employees who are the Programme participants. The loans will be repaid by 31 March 2011. As at 31 December 2009 the amount of loans issued to employees amounted to RR 161 million (net of discount of RR 19 million, effective interest rate – 11.8 percent). As at 31 December 2008 the amount of loans issued to employees was RR 148 million (net of discount of RR 47 million, effective interest rate – 11.8 percent).

The Programme participants can exercise the share option at any time over the period from 2 September 2010 through 16 April 2011. On 11 February 2010 the Company's Board of Directors approved the amendments to the Share Option Programme, which extend the period during which the participants can exercise their options up to 2 years after 2 September 2010 (Note 32).

The number of undistributed shares as at 31 December 2009 was 445,106,491 including forfeited options.

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)*

Changes in the amounts of options granted are described in the table below:

	<b>All options granted under the Programme</b>	<b>Attributed to members of the Managements Board</b>
<b>Number of options as at 1 January 2008</b>	<b>1,685,127,092</b>	<b>917,656,581</b>
Option agreements signed in 2008	1,229,347,156	-
Reclassification out of Management Board category	-	(86,275,405)
Options forfeited in 2008	(156,745,999)	(133,334,717)
<b>Number of options as at 1 January 2009</b>	<b>2,757,728,249</b>	<b>698,046,459</b>
Option agreements signed in 2009	118,335,752	-
Reclassification out of Management Board category	-	(487,109,677)
Options forfeited in 2009	(183,883,017)	(30,542,753)
<b>Number of options outstanding as at 31 December 2009</b>	<b>2,692,180,984</b>	<b>180,394,029</b>

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

Share price (in RR)	1.73
Exercise price (in RR)	1.73
Expected volatility	27.00%
Option life	1,096 days
Risk-free interest rate	6.13%
<b>Fair value of the option at measurement date (in RR)</b>	<b>0.456</b>

To determine volatility the Group used the historical volatility of the share prices of publicly traded shares of peer group companies. The measure of historical volatility used in the option pricing model is the annualised standard deviation of logarithms of daily changes in share price over a period of time comparable with expected lifetimes of the options granted under the Programme.

For the year ended 31 December 2009 the Group recognised an expense of RR 230 million within employee benefit expenses related to the fair value of the options (for the year ended 31 December 2008: RR 750 million).

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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

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**Note 7. Property, plant and equipment**

Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
<b>Opening balance as at 31 December 2008</b>	<b>37,905</b>	<b>193,808</b>	<b>90,688</b>	<b>89,403</b>	<b>2,992</b>	<b>414,796</b>
Additions	80	87	2,396	32,866	164	35,593
Transfers	1,490	9,584	5,263	(16,967)	630	-
Disposals (including write-off)	(690)	(545)	(5,014)	(232)	(90)	(6,571)
<b>Closing balance as at 31 December 2009</b>	<b>38,785</b>	<b>202,934</b>	<b>93,333</b>	<b>105,070</b>	<b>3,696</b>	<b>443,818</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Opening balance as at 31 December 2008</b>	<b>(4,366)</b>	<b>(24,601)</b>	<b>(7,323)</b>	<b>(40,963)</b>	<b>(426)</b>	<b>(77,679)</b>
Charge for the period	(660)	(3,363)	(7,558)	-	(327)	(11,908)
Transfers	(363)	(1,519)	(1,116)	2,998	-	-
Disposals	24	153	354	51	34	616
<b>Closing balance as at 31 December 2009</b>	<b>(5,365)</b>	<b>(29,330)</b>	<b>(15,643)</b>	<b>(37,914)</b>	<b>(719)</b>	<b>(88,971)</b>
<b>Net book value as at 31 December 2009</b>	<b>33,420</b>	<b>173,604</b>	<b>77,690</b>	<b>67,156</b>	<b>2,977</b>	<b>354,847</b>
<b>Net book value as at 31 December 2008</b>	<b>33,539</b>	<b>169,207</b>	<b>83,365</b>	<b>48,440</b>	<b>2,566</b>	<b>337,117</b>

Cost	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
<b>Opening balance as at 31 December 2007</b>	<b>27,385</b>	<b>152,472</b>	<b>77,223</b>	<b>68,941</b>	<b>1,944</b>	<b>327,965</b>
Revaluation reserve (net)	11,767	41,941	19,985	-	198	73,891
Transfers	313	6,035	3,832	(10,605)	425	-
Additions	287	229	772	31,216	1,423	33,927
Disposals	(58)	(73)	(250)	(149)	(88)	(618)
Elimination of accumulated depreciation	(1,789)	(6,796)	(10,874)	-	(910)	(20,369)
<b>Closing balance as at 31 December 2008</b>	<b>37,905</b>	<b>193,808</b>	<b>90,688</b>	<b>89,403</b>	<b>2,992</b>	<b>414,796</b>
<b>Accumulated depreciation (including impairment)</b>						
<b>Opening balance as at 31 December 2007</b>	<b>(3,934)</b>	<b>(16,739)</b>	<b>(6,892)</b>	<b>(27,374)</b>	<b>(1,447)</b>	<b>(56,386)</b>
Charge of impairment	(1,696)	(11,705)	(5,913)	(14,150)	289	(33,175)
Reversal of impairment	114	80	85	329	14	622
Charge for the year	(549)	(3,090)	(5,496)	-	(198)	(9,333)
Transfers	(113)	(6)	(42)	232	(71)	-
Disposals	23	63	61	-	77	224
Elimination of accumulated depreciation	1,789	6,796	10,874	-	910	20,369
<b>Closing balance as at 31 December 2008</b>	<b>(4,366)</b>	<b>(24,601)</b>	<b>(7,323)</b>	<b>(40,963)</b>	<b>(426)</b>	<b>(77,679)</b>
<b>Net book value as at 31 December 2008</b>	<b>33,539</b>	<b>169,207</b>	<b>83,365</b>	<b>48,440</b>	<b>2,566</b>	<b>337,117</b>
<b>Net book value as at 31 December 2007</b>	<b>23,451</b>	<b>135,733</b>	<b>70,331</b>	<b>41,567</b>	<b>497</b>	<b>271,579</b>

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2009 such advances amounted to RR 11,452 million (31 December 2008: RR 6,793 million).

Additions to assets under construction include capitalised borrowing costs of RR 16 million. The capitalisation rate was 15.16 percent. Up to 31 December 2008, borrowing costs incurred to finance the construction of property, plant and equipment are expensed.

Other property, plant and equipment include motor vehicles, land, computer equipment, office fixtures and

other equipment.

The assets transferred to the Group did not include the land on which the Group's buildings and facilities are situated. Use and alienability of the land are regulated by the Land Code of the Russian Federation. According to the Land Code the plots of land located under hydraulic engineering structures are limited in their alienability and shall not be conveyed to become private property, except for the cases established by federal laws.

**Accident at Sayano-Shushenskaya HPP.** In connection with the accident at Sayano-Shushenskaya HPP (Note 1) the Company wrote-off as disposals totally unusable and non-recoverable property, plant and equipment items and made a partial write-off of property, plant and equipment items damaged as a result of the accident for the total amount of RR 5,604 million, including assets under construction in the amount of RR 148 million.

Property, plant and equipment items amounting to RR 4,642 million (net book value at the date of the accident) will be reconstructed and require replacing major parts or components over period of more than twelve months. Depreciation of these assets ceased from the moment of accident. For the purpose of the above disclosure such assets were not reclassified to the category "assets under construction".

**Impairment as at 31 December 2009 and 31 December 2008.** Management of the Company analysed the current economic situation and decided that indicators of impairment existed at the end of the reporting period due to the volatility of markets and the ongoing global financial and economic crisis (Note 1). Cash flow testing was performed to calculate the value in use of property, plant and the equipment. The Company's branches and subsidiaries were considered to be separate cash-generating units. The following key assumptions were used when the cash flow testing was performed:

- For the year ended 31 December 2009 cash flows were projected based on the actual operating results and business plans for 2010 – 2013 and for the year ended 31 December 2008 – based on the actual operating results and business plans for 2009 – 2012;
- A post-tax discount rate of 14.0 percent was applied in determining the recoverable amount of the plants for the year ended 31 December 2009 (31 December 2008: 13.8 percent). The discount rate was estimated based on the average weighted average cost of capital;
- The forecast period was 11 years for most cash-generating units for the year ended 31 December 2009 (for the year 31 December 2008: 12 years). Management considers that forecast period greater than five years is appropriate due to the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will be not stabilised after only five years. Subsequently, a terminal value was calculated based on forecasted growth rates of 3.2 percent (year ended 31 December 2008: 2.1 percent);
- The forecast of electricity and capacity prices for 2010 – 2020 in the year ended 31 December 2009 was based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency. For the year ended 31 December 2008 the Company's forecasts were used;
- The forecast of electricity and capacity prices for 2010 used in the cash flow testing in the year ended 31 December 2009 includes uplift in tariff in the amount of investment required to finance capital expenditure (hereinafter referred to as "investment uplift in tariff"). The investment uplift in tariff is then excluded from cash-flows to assess net value in use. The electricity and capacity prices for 2011 – 2020 do not include the investment uplift in tariff;

The forecast electricity and capacity prices used in the cash flow testing in the year ended 31 December 2008 for 2009 – 2020 included the investment uplift in tariff. The investment uplift in tariff was then excluded from cash flows to assess net value in use;

- The electricity and capacity volumes for the period 2010 – 2021 were based on the Company's management assessment of future trends;
- The forecast of the capital expenditures used in the cash flow testing in the year ended 31 December 2009 is based on the Company's short term investment programme for 2010 and medium-term investment programme for 2011 – 2015, and set at an amount equal to the depreciation charge for 2016 – 2020. The Company's short-term investment programme for 2010 and medium-term investment programme for 2011 – 2015 include capital expenditures related to the restoration works at Sayano-Shushenskaya HPP (Note 1). The forecast of capital expenditures used in the cash flow testing in the year ended 31 December 2008 was based on the Company's medium-term investment programme for 2009 – 2013, and set at an amount equal to the depreciation charge for 2014 – 2020;

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- The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

As at 31 December 2009 no impairment has been identified for the property, plant and equipment.

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future electricity and capacity prices. If the electricity and capacity prices were 10 percent lower in the forecasted period, there would be an impairment loss of RR 8,867 million recognised as at 31 December 2009.

As at 31 December 2008 the Group recognised an additional impairment in the amount of RR 33,175 million for a number of cash-generating units and the reversal of the previously recognised impairment loss in the amount of RR 622 million for some cash-generating units.

**Revaluation as at 31 December 2009 and 31 December 2008.** As at 31 December 2009 the Group did not perform the revaluation of property, plant and equipment considering that the carrying amount does not differ materially from the fair value at the end of the reporting period.

As at 31 December 2008 the Group performed the revaluation of property, plant and equipment (except for assets under construction, office buildings and land) using an independent appraiser. As a result of the revaluation, the Group's equity increased by RR 63,256 million, comprising an increase in the carrying value of property, plant and equipment of RR 79,070 million, net of a deferred tax liability of RR 15,814 million.

Where the recoverable value was lower than the carrying value of the property, plant and equipment before the revaluation performed as at 31 December 2008, but above the historic carrying value excluding the effect of past revaluations, the reduction in the carrying value was taken directly to equity and shown as a reduction in the historically recognised revaluation surplus.

The Group's equity decreased by RR 4,143 million, comprising a decrease in the carrying value of property, plant and equipment of RR 5,179 million, net of a related deferred tax asset of RR 1,036 million.

For each revalued class of property, plant and equipment stated at a revalued amount in the Consolidated Financial Statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2009	15,698	77,617	45,259	67,157	1,600	207,331
Net book value as at 31 December 2008	14,978	71,394	42,971	48,440	1,001	178,784

**Leased property, plant and equipment.** The Group leases property, plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2009 the net book value of leased property, plant and equipment was RR 5,746 million (31 December 2008: RR 3,883 million). The leased equipment is pledged as a security for the lease obligation.

**Operating lease.** The Group leases a number of land areas owned by local governments under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2009	31 December 2008
Less than one year	440	337
Between one year and five years	1,499	1,264
After five years	10,812	10,561
<b>Total</b>	<b>12,751</b>	<b>12,162</b>

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. The leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

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**Note 8. Investments in associates and jointly controlled entities**

As at 31 December 2009 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2008	Share of profit / (loss) of associates and jointly controlled entities	Charged directly to other comprehensive income	Carrying value as at 31 December 2009
<b>Associates</b>				
OJSC Corporation of South Yakutiya development	29	3	-	32
OJSC GVC Energetiki	148	(22)	-	126
OJSC WGC-1	11,110	622	5	11,737
OJSC UEMC	72	(35)	-	37
CJSC Boguchansky Aluminium Plant Construction Organiser	1	-	-	1
<b>Total associates</b>	<b>11,360</b>	<b>568</b>	<b>5</b>	<b>11,933</b>
<b>Jointly controlled entities</b>				
BoGES Group**	4,271	2,179*	-	6,450
BALP Group***	65	(65)	-	-
LLC Corporation of Zabaikalie Development	11	(4)	-	7
OJSC Corporation of Krasnoyarsk region development	30	2	-	32
RusSUNHydroLimited	63	(19)	4	48
<b>Total jointly controlled entities</b>	<b>4,440</b>	<b>2,093</b>	<b>4</b>	<b>6,537</b>
<b>Total investments in associates and jointly controlled entities</b>	<b>15,800</b>	<b>2,661*</b>	<b>9</b>	<b>18,470</b>

\* Share of profit / (loss) of associates and jointly controlled entities does not contain the effect of elimination of profit in BoGES Group resulted from renegotiation of the terms of the promissory notes (Note 10) in the amount RR 3,277 million. This profit was eliminated from Group's share of results of associates and jointly controlled entities and from the finance costs of the Group (Note 23).

\*\* BoGES Group consists of BoGES Ltd and OJSC Boguchanskaya HPP

\*\*\* BALP Group consists of BALP Ltd and CJSC Boguchansky aluminium plant

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As at 31 December 2008 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2007	Additions	Share of profit / (loss) of associates and jointly controlled entities	Charged directly to equity	Other movements	Carrying value as at 31 December 2008
<b>Associates</b>						
OJSC Corporation of South Yakutiya development	33	-	(4)	-	-	29
OJSC GVC Energetiki	-	152	(4)	-	-	148
OJSC WGC-1	-	10,708	249	153	-	11,110
OJSC UEMC	-	72	-	-	-	72
CJSC Boguchansky Aluminium Plant Construction Organiser	-	-	1	-	-	1
<b>Total associates</b>	<b>33</b>	<b>10,932</b>	<b>242</b>	<b>153</b>	<b>-</b>	<b>11,360</b>
<b>Jointly controlled entities</b>						
BoGES Group	5,082	-	(886)	75	-	4,271
BALP Group	865	-	(855)	-	55	65
LLC Corporation of Zabaikalie Development	17	-	(6)	-	-	11
OJSC Corporation of Krasnoyarsk region development	30	-	-	-	-	30
RusSUNHydroLimited	79	-	(26)	10	-	63
<b>Total jointly controlled entities</b>	<b>6,073</b>	<b>-</b>	<b>(1,773)</b>	<b>85</b>	<b>55</b>	<b>4,440</b>
<b>Total investments in associates and jointly controlled entities</b>	<b>6,106</b>	<b>10,932</b>	<b>(1,531)</b>	<b>238</b>	<b>55</b>	<b>15,800</b>

As at 31 December 2009 the investment in BALP Group was written-off in full amount as the Group's interest in jointly controlled entity's loss exceeded the carrying value of the investment in the jointly controlled entity. Unrecognised loss of BALP Group for the year ended 31 December 2009 was RR 1,647 million (for the year ended 31 December 2008: RR 1,967 million).

## RusHydro Group

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

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The following is the summarised financial information, in aggregate, related to significant associates and jointly controlled entities:

31 December 2009	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Income / (Expenses)	Profit / (Loss)
<b>Associates</b>							
OJSC Corporation of South Yakutiya development	25.10	25.10	134	(6)	27	(15)	12
OJSC GVC Energetiki	42.53	42.53	490	(195)	51	(104)	(53)
OJSC WGC-1	22.69	22.69	73,587	(21,850)	49,292	(46,550)	2,742
OJSC UEMC	20.67	20.67	332	(6)	-	(171)	(171)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	2	(2)	37	(37)	-
CJSC Boguchansky Aluminium Plant Construction Organiser	49.00	49.00	159	(156)	153	(152)	1
<b>Jointly controlled entities</b>							
BoGES Group	50.00	50.00	40,528	(27,728)	1,183	3,175*	4,358
BALP Group	50.00	50.00	16,198	(18,783)	17	751	769
LLC Corporation of Zabaikalie Development	50.00	50.00	13	(1)	-	(9)	(9)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	131	(1)	-	9	9
RusSUNHydroLimited	50.00	50.00	106	(13)	-	(39)	(39)

\* Includes profit resulted from the renegotiation of the terms of the promissory notes (Note 10).

31 December 2008	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Income / (Expenses)	Profit / (Loss)
<b>Associates</b>							
OJSC Corporation of South Yakutiya development	25.10	25.10	141	(25)	53	(69)	(16)
OJSC GVC Energetiki	42.53	42.53	644	(297)	123	(132)	(9)
OJSC WGC-1	22.69	22.69	70,411	(21,446)	25,120	(24,020)	1,100
OJSC UEMC	20.67	20.67	355	(6)	141	(143)	(2)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	4	(4)	46	(46)	-
CJSC Boguchansky Aluminium Plant Construction Organiser	49.00	49.00	157	(155)	250	(249)	1
<b>Jointly controlled entities</b>							
BoGES Group	50.00	50.00	30,983	(22,442)	225	(1,997)	(1,772)
BALP Group	50.00	50.00	14,130	(18,035)	126	(5,769)	(5,643)
LLC Corporation of Zabaikalie Development	50.00	50.00	22	(1)	-	(13)	(13)
OJSC Corporation of Krasnoyarsk region development	25.00	25.00	122	-	8	(8)	-
RusSUNHydroLimited	50.00	50.00	140	(14)	-	(51)	(51)

In 2008, as a result of the reorganisation of RAO UES, the Company received shares of associates OJSC WGC-1, OJSC GVC Energetiki and OJSC UEMC. The assets and liabilities of the associates transferred under common control are recognised at the predecessor entity's carrying amounts.

Included in investments in associates and jointly controlled entities is a 22.69 percent interest in OJSC WGC-1 in the amount of RR 11,737 million as at 31 December 2009 (31 December 2008: RR 11,110 million). On 12 March 2009 the Company signed a trust management agreement with OJSC INTER RAO UES, which stated that the rights for shares of OJSC WGC-1 were transferred to OJSC INTER RAO UES for trust management in favour of the Company. The transfer did not result in the termination of the Group's rights of ownership for these shares. As at 31 December 2009 there are three representatives of the Company in the Board of Directors of OJSC WGC-1. Therefore the Group continues to exercise significant influence over OJSC WGC-1 as at 31 December 2009.

On 13 November 2009 the Company's Board of Directors approved an additional issue of 38,000,000,000 shares of OJSC WGC-1 in favour of OJSC INTER RAO UES. The decision on the additional issue was

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approved by the General meeting of shareholders of OJSC WGC-1 in December 2009. Following the issue the Group's interest in the share capital of OJSC WGC-1 is expected to be diluted from 22.69 percent to 12.26 percent. The retained investment in OJSC WGC-1 will be measured at its fair value at the moment when significant influence is lost.

**Note 9. Available-for-sale financial assets**

In 2008, as a result of the reorganisation of RAO UES, the Company obtained a 100 percent interest in LLC Index Energetiki – HydroWGC, which holds investments in various utilities companies. These investments are classified as available-for-sale financial assets in the Consolidated Financial Statements and accounted for at fair values as at the date of receipt of these investments on 1 July 2008.

The fair values of the available-for-sale financial assets were calculated based on the quoted market prices or, where the quotations were not available, based on valuation techniques.

The analysis of trading volumes for the years ended 31 December 2009 and 31 December 2008 confirmed that there were no reductions in the trading activity or significant changes in the free float or other circumstances and therefore that an active market existed.

The Group assessed the available-for-sale financial assets for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of an investment of an equity instrument below its cost. The impairment of these investments as at 31 December 2008 totalled RR 6,464 million and was recorded through profit and loss.

As at 31 December 2009 gains arising on these available-for-sale financial assets during the year ended 31 December 2009 totalled RR 4,640 million, net of tax (Note 15), and were recorded within other comprehensive income.

The Company's management does not have an intention to sell the shares in the short-term period.

The fair value hierarchy of available-for-sale financial assets into which their fair values are categorised is disclosed in Note 30.

**Note 10. Other non-current assets**

	31 December 2009	31 December 2008
Promissory notes and deposits (Net of discount of RR 3,889 million, due 2010 – 2014 as at 31 December 2009 and RR 1,001 million, due 2010 as at 31 December 2008)	24,728	14,166
Long-term loans receivable (Net of discount of RR 87 million as at 31 December 2009 and RR 125 million as at 31 December 2008)	219	213
<b>Total financial assets</b>	<b>24,947</b>	<b>14,379</b>
VAT recoverable	3,065	1,311
Other long-term assets (Net of provision for accounts receivable impairment of RR 243 million, effective interest rate: 11.76% – 16.00%, due 2011 – 2020 as at 31 December 2009 and RR 231 million, effective interest rate: 11.76% – 16.00%, due 2010 – 2020 as at 31 December 2008)	1,907	1,524
Less current portion of promissory notes and deposits (Note 13)	(8,206)	(2,223)
<b>Total other non-current assets</b>	<b>21,713</b>	<b>14,991</b>

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Promissory notes and deposits	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2009	31 December 2008
<b>Promissory notes</b>						
OJSC Boguchanskaya HPP	-	-	12.00%	2012	8,408	-
LLC Energo-finance	-	-	13.00%	2014	6,899	-
				not earlier		
OJSC VTB bank	Baa1	Moody's	7.00%	2010	5,689	5,312
CJSC Boguchansky Aluminium Plant	-	-	12.00%	2012	1,184	-
				not earlier		
OJSC Evrofinance Mosnarbank	Ba3	Moody's	No interest	2013	1	-
			9.20% –	not earlier		
LLC FC Otkritie	-	-	9.60%	2010	-	6,337
<b>Long-term deposits</b>						
OJSC KIT Finance Investment bank	-	-	13.00%	2010	2,517	2,517
			11.90% –			
OJSC Sberbank of Russia	Baa1	Moody's	13.50%	2011	30	-
<b>Total promissory notes and deposits</b>					<b>24,728</b>	<b>14,166</b>

The Group together with RUSAL Group is involved in two investment projects, the construction of Boguchanskaya HPP and Boguchansky aluminium plant (hereinafter referred to as "BEMA project" (Note 27). The BEMA project is financed through the purchase of interest-free promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant. As at 31 December 2009 the line Promissory notes included outstanding promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant recognised at amortised cost net of discount of RR 3,409 million and RR 480 million respectively. As at December 2008 the promissory notes were recognised as accounts receivable and prepayments (Note 12) and reclassified to other non-current assets as at 31 December 2009 due to renegotiation of their settlement terms.

In December 2009 the promissory notes of LLC FC Otkritie were exchanged for interest-bearing promissory notes of LLC Energo Finance secured with the guarantee of Rusenergo Fund Limited, with a 13 percent annual interest rate payable on demand, but not earlier than 12 December 2014, at the total amount of RR 6,899 million under the contract with Sotserento Limited. At the date of the transaction the carrying value of promissory notes of LLC FC Otkritie was equal to the fair value of interest-bearing promissory notes of LLC Energo Finance.

**Note 11. Cash and cash equivalents**

	31 December 2009	31 December 2008
Cash at bank and in hand	5,971	7,061
Cash equivalents (contractual interest rate: 0.21% – 11.5%)	42,181	17,777
<b>Total cash and cash equivalents</b>	<b>48,152</b>	<b>24,838</b>

Cash equivalents held as at 31 December 2009 and 31 December 2008 comprised short-term bank deposits and short-term bank promissory notes with original maturities of three months or less.

Cash and cash equivalents balances denominated in USD currency as at 31 December 2009 were RR 320 million (31 December 2008: RR 1 million). Cash and cash equivalents balances denominated in EURO were RR 1,258 million as at 31 December 2009 (31 December 2008: RR 13 million).

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Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2009	31 December 2008
<b>Bank deposits and promissory notes</b>				
OJSC Gazprombank	BB	Standard & Poor's	20,675	-
OJSC Sberbank of Russia	Baa1	Moody's	13,618	9,981
CJSC VTB24	Baa1	Moody's	5,660	7,116
CJSC Raiffeisenbank	BBB-	Standard & Poor's	1,171	-
OJSC Alfa-Bank	B+	Standard & Poor's	578	-
OJSC NRBank	B	Fitch Ratings	280	-
OJSC Bank Vozrozhdenie	B+	Standard & Poor's	170	275
OJSC Evrofinance Mosnarbank	Ba3	Moody's	24	-
OJSC Commercial Bank of Support to Commerce and Business	B-	Fitch Ratings	5	5
OJSC Alemar Bank	-	-	-	400
<b>Total cash equivalents</b>			<b>42,181</b>	<b>17,777</b>
<b>Cash at banks</b>				
OJSC Gazprombank	BB	Standard & Poor's	3,216	5,277
OJSC Sberbank of Russia	Baa1	Moody's	1,095	622
OJSC Alfa-Bank	B+	Standard & Poor's	505	159
OJSC CB Sotsgorbank	B-	Standard & Poor's	284	99
OJSC VTB	Baa1	Moody's	227	67
Other	-	-	644	837
<b>Total cash at banks</b>			<b>5,971</b>	<b>7,061</b>

**Note 12. Accounts receivable and prepayments**

	31 December 2009	31 December 2008
<b>Trade receivables</b>		
(Net of provision for accounts receivable impairment of RR 2,714 million as at 31 December 2009 and RR 1,953 million as at 31 December 2008)	7,095	6,363
<b>Promissory notes</b>	383	8,648
<b>Total financial assets</b>	<b>7,478</b>	<b>15,011</b>
<b>Advances to suppliers and prepayments</b>		
(Net of provision for accounts receivable impairment of RR 165 million as at 31 December 2009 and RR 15 million as at 31 December 2008)	900	1,180
Income tax receivables	1,774	2,059
Value added tax recoverable	4,091	6,284
Other prepaid taxes	102	44
Other receivables		
(Net of provision for accounts receivable impairment of RR 14 million as at 31 December 2009 and RR 37 million as at 31 December 2008)	7,307	1,107
<b>Total accounts receivable and prepayments</b>	<b>21,652</b>	<b>25,685</b>

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics.

A major part of other receivables includes insurance compensation for the accident at Sayano-Shushenskaya HPP due from OJSC IC Rosno in the amount of RR 6,046 million (Note 22).

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analyses of expected future cash flows (Note 3). The Group believes that the Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

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**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

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Movements in the impairment provision for trade and other receivables are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
As at 1 January	2,005	1,074
Charge for the year	1,765	1,202
Reversal of impairment	(845)	(170)
Trade receivables written-off as uncollectible	(32)	(101)
<b>As at 31 December</b>	<b>2,893</b>	<b>2,005</b>

As at 31 December 2009 the accounts receivable of RR 2,499 million (31 December 2008: RR 2,274 million) were past due but not impaired. These receivables relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

31 December 2009	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	65	36	1,229	1,169	2,499
% to total	3%	1%	49%	47%	

31 December 2008	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	2	121	1,527	624	2,274
% to total	-	5%	68%	27%	

The counterparties, balances of which fall into trade receivables and other receivables, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any accounts receivable pledged as collateral.

**Note 13. Other current assets**

	31 December 2009	31 December 2008
Promissory notes and deposits: effective interest rate 5.25% – 17.00%	2,254	2,504
Current portion of promissory notes and deposits (Note 10)	8,206	2,223
Derivative financial instruments (Note 25)	-	107
<b>Total financial assets</b>	<b>10,460</b>	<b>4,834</b>
Other short-term investments	6	60
<b>Total other current assets</b>	<b>10,466</b>	<b>4,894</b>

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	31 December 2009	31 December 2008
<b>Promissory notes</b>					
OJSC VTB	Baa1	Moody's	7.00% – 11.00%	6,408	-
OJSC GVC Energetiki	-	-	17.00%	40	40
LLC FC Otkritie	-	-	9.40% – 10.10%	-	2,223
OJSC SO-UES	-	-	8.80%	615	2,160
OJSC Evrofinance					
Mosnarbank	Ba3	Moody's		-	4
<b>Short-term deposits</b>					
OJSC KIT Finance	-	-	13.00%	2,517	
OJSC Bank		Standards &			
Vozrozhdenie	B+	Poor's	8.25% – 9.75%	300	-
OJSC Sberbank of Russia	Baa1	Moody's	5.25% – 8.00%	288	150
Other			9.00% – 14.90%	292	150
<b>Total promissory notes and deposits</b>				<b>10,460</b>	<b>4,727</b>

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)***Note 14. Equity**

	Ordinary shares 31 December 2009	Ordinary shares 31 December 2008
Number of issued ordinary shares	269,695,430,802	245,014,059,191
Par value (in RR)	1.00	1.00

**Share issues 2009.** On 17 November 2008 the Extraordinary General meeting of Shareholders of the Company adopted a resolution to make two placements of ordinary shares, one for 10,000,000,000 and the other for 16,000,000,000, with a par value of RR 1.00 each by open subscription with a cash consideration.

The share issuance for 10,000,000,000 ordinary shares was registered with the Federal Service for Financial Markets of Russia (hereinafter referred to as "FSFM") on 2 December 2008. Out of the total offering of 10,000,000,000 shares the company placed 9,999,959,476 ordinary shares in favour of the Russian Federation with a par value of RR 1.00 per share. The Report of the share issuance was registered with the FSFM on 19 March 2009.

The share issuance for 16,000,000,000 ordinary shares was registered with the FSFM on 14 May 2009. Out of the total offering of 16,000,000,000 shares the Company placed 14,681,412,135 ordinary shares with a par value of RR 1.00 per share. The Report of the share issuance was registered with the FSFM on 24 September 2009.

**Share issues 2008.** In 2008 as a result of the reorganisation of RAO UES 18 subsidiaries of the Group, OJSC Bureiskaya HPP, OJSC Kabardino-Balkarskaya Hydrogenerating Company, OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP merged into the Company and became one legal entity. According to the results of the share conversion, 88,149,685,415 additional shares of the Company were placed and the Company's share capital increased to RR 245,014 million. Minority stakes in these companies were exchanged for ordinary shares of the Company.

**Treasury shares.** Treasury shares as at 31 December 2009 and 31 December 2008 represented 9,882,055,277 ordinary shares in the amount of RR 12,172 million and 5,882,055,227 ordinary shares in the amount of RR 8,172 million respectively (3,137,287,475 ordinary shares in the amount of RR 5,428 million were allocated for the Share Option Programme (Note 6)).

These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by the entities within the Group, are effectively controlled by management of the Group.

In 2009 in the course of the additional share issue the Group purchased treasury shares in the amount of 4,000,000,000 ordinary shares with par value of RR 1.00 per share.

**Merger reserve.** Based on the application of predecessor values basis of accounting in 2008 the difference of RR 77,449 million as at 31 December 2009 (31 December 2008: RR 77,449 million) between the statutory value of share capital issued and the IFRS carrying value of the contributed assets and minority interest has been recorded as a merger reserve within equity.

**Effect of changes in minority.** In 2009 the Group subsidiary OJSC Ust'-Srednekanskaya HPP issued 4,995,810,158 additional ordinary shares with a par value of RR 1.00 per share. 3,240,737,749 shares were bought by the State for cash. The remaining 1,755,072,409 shares were bought by the Group for cash and by means of contribution of property, plant and equipment. During 2009 OJSC Ust'-Srednekanskaya HPP purchased 767,959,382 of its own ordinary shares from OJSC Kolymaenergo. As a result of these transactions the Group's share in OJSC Ust'-Srednekanskaya HPP decreased from 51.86 percent to 48.75 percent (Note 4). As contribution made by the State as minority shareholder of OJSC Ust'-Srednekanskaya HPP is higher than the contribution made by the Group, the Group recognized gain in the amount of RR 1,367 million in retained earnings in the statement of changes in equity resulting from the increased net assets OJSC Ust'-Srednekanskaya HPP and of dilution of the Group's share. The Group has also recognised a gain of RR 915 million in retained earnings in the statement of changes in equity to account for recover of minority' share of losses of OJSC Ust'-Srednekanskaya HPP that were previously absorbed by the equity holders of the Group. Respective increase of the minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2009 the Company acquired 4,002,800 ordinary shares of OJSC Geoterm with a par value of RR 10.00 per share for RR 63 million from OJSC Kamchatskenergo. The change in minority interest was reflected in the statement of changes in equity at the date of the acquisition (Note 4).

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009***(in millions of Russian Rubles unless noted otherwise)*

In 2009 the Group acquired 101,633,259 ordinary shares of OJSC Verhne-Mutnovskaya GeoES with a par value of RR 1.00 per share for RR 46 million from OJSC Kamchatskenergo. The change in minority interest was reflected in the Consolidated Statement of Changes in Equity at the date of the acquisition (Note 4).

In 2008 OJSC Kolymaenergo issued 1,050,000,000 additional ordinary shares with a par value of RR 1.00 per share each in favour of the State. The change in minority interest was reflected in the Consolidated Statement of Changes in Equity at the date of the additional share issue.

**Acquisition and disposal of subsidiaries.** In 2009 the Group's subsidiary OJSC Geoterm acquired 32,389,530 ordinary shares of OJSC Pauzhetskaya GeoES with a par value of RR 1.00 per share for RR 68 million from OJSC Kamchatskenergo, which represents 100 percent share in OJSC Pauzhetskaya GeoES (Note 4). The Group accounted for this transaction as business combination under common control (Note 3).

In 2008 the Group acquired OJSC Chuvashskaya energy retail company and OJSC RESK for cash consideration and an additional interest in OJSC Kaskad NChHPP from OJSC KabbalkEnergo in exchange for setting-off OJSC KabbalkEnergo liabilities to the Company and accounted for these transactions as business combinations under common control (Note 3).

**Dividends.** In accordance with Russian legislation the Group distributes profits as dividends on the basis financial statement prepared in accordance with RSA. No dividends were declared and paid by the Company relating to the years 2008 and 2007. Dividends in the amount of RR 213 million relating to the year ended 31 December 2008 (for the year ended 31 December 2007: RR 1 million) were declared by the subsidiaries in favour of minority holders.

**Note 15. Income tax**

Income tax charge is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	10,133	8,348
Deferred income tax benefit	(2,394)	(7,899)
<b>Total income tax charge</b>	<b>7,739</b>	<b>449</b>

The income tax rate applicable to the majority of the Group's for the year ended 31 December 2009 income is 20 percent (for the year ended 31 December 2008: 24 percent).

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24 percent to 20 percent with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the reduced 20 percent tax rate to deferred income tax balances at 31 December 2008.

A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Profit / (Loss) before income tax</b>	<b>38,923</b>	<b>(19,032)</b>
Theoretical tax (charge) / benefit at statutory rate (2009: 20%; 2008: 24%)	(7,784)	4,568
Tax effect of items which are not deductible or assessable for taxation purposes	(653)	(1,352)
Effect of reduction in tax rate from 24% to 20% enacted in 2008 with effect from 1 January 2009	-	(694)
Unrecognised deferred income tax asset movements related to impairment of investments	291	(1,735)
Other unrecognised deferred income tax asset movements	407	(1,236)
<b>Total income tax charge</b>	<b>(7,739)</b>	<b>(449)</b>

Total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group comprises RR 20,666 million and RR 23,920 million as at 31 December 2009 and 31 December 2008 respectively. These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group subsidiaries and impairment of available-for-sale financial assets incurred in the year ended 31 December 2008.

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(in millions of Russian Rubles unless noted otherwise)

**Deferred income tax.** Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2008: 20 percent).

	31 December 2009	Charged / (credited) to the income statement	Charged directly to other comprehensive income	31 December 2008
<b>Deferred income tax liabilities</b>	<b>42,851</b>	<b>(1,015)</b>	<b>291</b>	<b>43,575</b>
Property, plant and equipment	41,148	(1,902)	-	43,050
Loans and borrowings	451	(7)	-	458
Other	1,252	894	291	67
<b>Deferred income tax assets</b>	<b>(10,135)</b>	<b>(1,379)</b>	<b>-</b>	<b>(8,756)</b>
Property, plant and equipment	(6,658)	(199)	-	(6,459)
Accounts receivable	(1,364)	(1,134)	-	(230)
Other	(2,113)	(46)	-	(2,067)
<b>Deferred income tax liabilities, net</b>	<b>32,716</b>	<b>(2,394)</b>	<b>291</b>	<b>34,819</b>

In 2009 a deferred income tax expense of RR 291 million was recorded directly in other comprehensive income in respect of the gains arising on available-for-sale financial assets (Note 9).

	31 December 2008	Charged / (credited) to the income statement	Charged directly to other comprehensive income	31 December 2007
<b>Deferred income tax liabilities</b>	<b>43,575</b>	<b>(3,405)</b>	<b>10,156</b>	<b>36,824</b>
Property, plant and equipment	43,050	(3,320)	10,156	36,214
Loans and borrowings	458	(45)	-	502
Other	67	(41)	-	108
<b>Deferred income tax assets</b>	<b>(8,756)</b>	<b>(4,494)</b>	<b>-</b>	<b>(4,262)</b>
Property, plant and equipment	(6,459)	(4,337)	-	(2,122)
Accounts receivable	(230)	520	-	(750)
Other	(2,067)	(677)	-	(1,390)
<b>Deferred income tax liabilities, net</b>	<b>34,819</b>	<b>(7,899)</b>	<b>10,156</b>	<b>32,562</b>

In 2008 a deferred income tax expense of RR 10,156 million was recorded directly in other comprehensive income in respect of the revaluation of the Group's property, plant and equipment (Note 7).

In the context of the Group's current structure, tax losses and current income tax assets of different Group companies may not be offset against current income tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

The Group did not have significant unrecognised deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures as at 31 December 2009 and 31 December 2008.

**Note 16. Pension benefit obligations**

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2009 and 31 December 2008.

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2009	31 December 2008
Present value of defined benefit obligations	1,874	1,984
Present value of unfunded obligations	1,874	1,984
Unrecognised actuarial gains	214	228
Unrecognised past service cost	(528)	(726)
<b>Net liability</b>	<b>1,560</b>	<b>1,486</b>

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

Amounts recognised in the Group's Consolidated Income Statement:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	71	96
Interest cost	165	117
Net actuarial loss	1	1
Past service cost	91	390
Termination benefits	28	-
Survivors lump-sum payments	40	-
Curtailment gain	-	(22)
<b>Net expense recognised in income statement</b>	<b>396</b>	<b>582</b>

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2009	31 December 2008
Projected Benefit Obligation at the beginning of the year	1,984	1,731
Service cost	71	96
Interest cost	165	117
Actuarial loss / (gain)	15	(205)
Past service (income) / cost	(107)	383
Benefits paid	(254)	(104)
Curtailment gain	-	(34)
<b>Present value of pension benefit obligations at the end of the year</b>	<b>1,874</b>	<b>1,984</b>

Experience adjustment on benefit obligations is as follows:

	31 December 2009	31 December 2008
Defined benefit obligations	1,874	1,984
Plan assets	-	-
Deficit	1,874	1,984
Experience adjustments on plan liabilities	15	40
Experience adjustments on plan assets	-	-

The Group expects to contribute RR 143 million to the defined benefit plans during the year beginning 1 January 2010.

Principal actuarial assumptions are as follows:

	31 December 2009	31 December 2008
Nominal discount rate	9.0%	9.0%
Wage growth rate	8.0%	8.0%
Inflation rate	6.5%	7.0%

**RusHydro Group**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

**Note 17. Current and non-current debt**
*Non-current debt*

	Currency	Effective interest rate	Due date	31 December 2009	31 December 2008
Bonds issue (OJSC HydroWGC Management Company)	RR	8.10%	2011	5,000	5,000
EBRD (tranche 1)	RR	MOSPRIME+3.65%	2020	2,045	2,024
EBRD (tranche 2)	RR	MOSPRIME+2.75%	2014	850	850
EBRD (tranche 3)	RR	MOSPRIME+3.05%	2016	3,150	3,150
Morgan Stanley Bank International Ltd	RR	8.75%	2013	3,000	3,000
CF Structured Products B.V.	USD	10.5%	2013	1,815	1,763
Morgan Stanley Bank International Ltd	RR	MOSPRIME+1.5%	2014	1,500	1,500
Municipal authority of Kamchatka region	USD	8.57%	2035	1,282	1,198
Other long-term debt	RR	-	-	268	323
Long-term derivative financial instruments – interest rate swaps	RR	-	2010	-	240
Finance lease liabilities	RR	11.10% – 20.00%	-	2,271	3,083
<b>Total</b>				<b>21,180</b>	<b>22,131</b>
Less current portion of finance lease liabilities				(955)	(2,064)
Less current portion of non-current debt				(858)	(52)
<b>Total non-current debt</b>				<b>19,367</b>	<b>20,015</b>

**European Bank for Reconstruction and Development** (hereinafter referred to as “EBRD”). In September 2006 the Group received a loan, in three tranches, of RR 6,300 million from EBRD. Tranche 1 is stated net of transaction costs incurred in the amount of RR 255 million as at 31 December 2009 (31 December 2008: RR 276 million). The funds are used to finance a programme of upgrading and reequipment of HPPs of Volzhsko-Kamskiy Kaskad. The loan is co-arranged by Standard Bank PLC, CJSC Bank Austria Creditanstalt AG and CJSC ING Bank (Eurasia). The lead arrangers are Calyon, Fortis SA/NV and CJSC Raiffeisenbank and the arrangers are CJSC Citibank, Credit Suisse and CJSC Banque Societe Generale Vostok. Interest is payable on a quarterly basis. The loan is scheduled for repayment through equal quarterly instalments beginning with the first interest payment date in 2010.

**Bonds issue.** In July 2006 OJSC HydroWGC Management Company issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000 million. The bonds were sold at a par value of RR 1,000. The interest is payable every six months. The bonds are repayable in July 2011. The bonds issue was sponsored by OJSC KIT Finance Investment Bank. The bond issue proceeds are used to finance the completion of Boguchanskaya HPP and the needs of the Group’s subsidiaries.

**Morgan Stanley Bank International Ltd** (hereinafter referred to as “Morgan Stanley”). In April 2007 the Group obtained a loan of RR 1,500 million from Morgan Stanley. The funds were intended to be used for financing capital expenditure projects in accordance with the Group’s investment programme. The loan is scheduled for repayment in April 2014. The interest is payable every six months.

In December 2006 the Group obtained a loan of RR 3,000 million from Morgan Stanley. The funds were intended to be used for financing of the Company’s investment programme. The loan is scheduled for repayment in December 2013. The interest is payable on a monthly basis.

**Municipal authority of Kamchatka region.** The loan was received for the purpose of financing the construction of Verhne-Mutnovskaya GeoES. The loan is scheduled for repayment by 1 January 2035 through annual payments. The debt is stated at amortised costs using the discount rate of 8.57 percent.

**CF Structured Products B.V.** In February 2007 the Group obtained a loan from CF Structured Products B.V. in the amount of USD 60 million. The funds were obtained to finance construction of Kaskad NChHPPs. The loan is scheduled for repayment in February 2013.

## RusHydro Group

### Notes to the Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Rubles unless noted otherwise)

#### Current debt

	Currency	Effective interest rate	31 December 2009	31 December 2008
Current portion of non-current debt	RR	-	858	52
Finance lease liabilities	RR	11.10% – 20.00%	955	2,064
Interest payable	RR	-	453	574
Ministry of Railways of Russia	RR	9.80%	-	471
Other current debt	RR	-	25	5
Short-term derivative financial instruments – interest rate swaps	RR	-	285	211
<b>Total current debt and current portion of non-current debt</b>			<b>2,576</b>	<b>3,377</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its debt. The Group was in compliance with covenants as at 31 December 2009 and 31 December 2008. The Group's management monitors its compliance with the following significant covenants on a semi-annual basis:

**Debt / EBITDA.** The debt to EBITDA ratios were 0.42 and 0.69 as at 31 December 2009 and as at 31 December 2008, respectively.

**EBITDA / Interest expense.** The EBITDA to interest expense ratios were 19.01 and 14.30 as for the years ended 31 December 2009 and 31 December 2008, respectively.

**Long-term debt / EBITDA.** The long-term debt to EBITDA ratios were 0.37 and 0.59 as at 31 December 2009 and as at 31 December 2008.

**Current assets / Current liabilities (current ratio).** The current ratios were 3.24 and 2.24 as at 31 December 2009 and as at 31 December 2008.

**Long-term debt / Equity.** The long-term debt to equity ratios were 0.05 and 0.06 as at 31 December 2009 and as at 31 December 2008.

EBITDA is defined as earnings before the deduction of interest expense and financing items, income taxes, depreciation, non-cash impairment and disposal charges and insurance compensations and amounted to RR 52,182 million for the year ended 31 December 2009 and RR 33,735 million for the year ended 31 December 2008. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position.

#### Debt maturity

	31 December 2009	31 December 2008
Between one and two years	5,949	1,092
Between two years and three years	1,058	5,963
Between three years and four years	5,677	1,082
Between four years and five years	2,374	5,617
After five years	2,993	5,242
<b>Total</b>	<b>18,051</b>	<b>18,996</b>

**Effective interest rate.** The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

**Finance lease liabilities.** Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	1,160	2,209	43	3,412
Less future finance charges	(205)	(911)	(25)	(1,141)
Present value of minimum lease payments at 31 December 2009	955	1,298	18	2,271
Minimum lease payments at 31 December 2008	2,257	1,165	78	3,500
Less future finance charges	(193)	(183)	(41)	(417)
Present value of minimum lease payments at 31 December 2008	2,064	982	37	3,083

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

**Note 18. Other non-current liabilities**

	31 December 2009	31 December 2008
Pension benefit obligations (Note 16)	1,560	1,486
Other non-current liabilities	1,195	1,250
<b>Total other non-current liabilities</b>	<b>2,755</b>	<b>2,736</b>

**Note 19. Accounts payable and accruals**

	31 December 2009	31 December 2008
Trade payables	8,602	4,671
Derivative financial instruments	1,164	50
Dividends payable	19	21
<b>Total financial liabilities</b>	<b>9,785</b>	<b>4,742</b>
Accounts payable in respect of share issue	4,330	6,000
Advances received	1,253	1,432
Settlements with personnel	885	863
Other accounts payable	2,849	3,203
<b>Total accounts payable and accruals</b>	<b>19,102</b>	<b>16,240</b>

As at 31 December 2008 the Group had an obligation of RR 6,000 million to the Russian Federation represented by the Federal Agency for State Property Management in respect of an additional issue of shares approved by the Extraordinary General meeting of the Company's Shareholders on 18 November 2008 for 10,000,000,000 shares. During the year ended 31 December 2009 additional cash payments were received from the Russian Federation in the amount of RR 4,000 million. As a result 9,999,959,476 ordinary shares were placed and registered by the FSFM on 19 March 2009 (Note 14).

As at 31 December 2009 the Company had an obligation of RR 4,330 million to the Russian Federation represented by the Federal Agency for State Property Management in respect of an additional issue of shares approved by the Extraordinary General meeting of the Company's Shareholders on 10 June 2009 for 19,000,000,000 ordinary shares. Share issuance was not completed as at 31 December 2009.

As at 31 December 2008 a major part of other accounts payable balance related to special-purpose financing from the Russian Federation represented by the Federal Energy Agency in the amount of RR 2,450 million made in exchange for an interest in the share capital of OJSC Ust'-Srednekanskaya HPP. As a result 3,240,737,749 ordinary shares with a par value of RR 1.00 were issued in favour of the Russian Federation. Share issuance was registered by the FSFM on 10 June 2009 (Note 14).

As at 31 December 2009 the main part of other accounts payable balance related to special-purpose financing to OJSC Ust'-Srednekanskaya HPP from the Russian Federation represented by the Federal Energy Agency in the amount of RR 1,590 million.

All accounts payable and accruals are denominated in RR.

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 December 2009 comprises RR 31,728 million (31 December 2008: RR 28,134 million) and includes, in addition to trade payables, derivative financial instruments, dividends payable, non-current and current debt (Note 17).

**Note 20. Other taxes payable**

Other taxes payable represent the following:

	31 December 2009	31 December 2008
Value added tax	1,505	3,169
Property tax	1,305	1,503
Unified social tax	331	235
Other taxes	214	303
<b>Total other taxes payable</b>	<b>3,355</b>	<b>5,210</b>

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

(in millions of Russian Rubles unless noted otherwise)

**Note 21. Revenue**

	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity	60,616	65,730
Sales of capacity	50,776	36,944
Other revenue	4,211	4,996
<b>Total revenue</b>	<b>115,603</b>	<b>107,670</b>

Other revenue includes rendering of construction, repairs and other services.

A significant part of the Group's sales and purchases of electricity and capacity is conducted through commission and purchase-and-sale agreements with CJSC "Center of Financial Settlements" (hereinafter referred to as "CFS") on the wholesale electricity and capacity market (hereinafter referred to as "WEM").

A significant part of electricity and capacity is sold through WEM under regulated contracts with predetermined volumes and tariffs approved by FST or unregulated bilateral contracts (sale / purchase of electricity and capacity at non-regulated prices (Note 1)). Electricity and capacity are sold directly to trading companies or major industrial consumers.

At the same time some of the transactions through WEM are conducted through commission agreements with CFS (one-day-ahead market or balancing electricity market (Note 1)). CFS is the entity responsible for ensuring secure and timely financial settlements under all contract relationship between the WEM participants. Its principal function is to provide complex services on calculation of receivables and liabilities of the WEM participants and on the fulfillment of financial settlements between them.

Actual counterparties in transactions through WEM conducted through CFS as a commissioner may be presented by different trading companies or industrial customers or generating companies (purchasing electricity and capacity to secure their own supply under regulated market). The state-controlled entities may also act as the counterparties. The current financial settlement system of CFS does not provide the final counterparty with automated information about the WEM participants' transactions / settlement balances. CFS's financial settlement system is adequately automated and settlement operations do not require the operator's influence and do not allow adjusting input and output data flows. As a result it is not currently practicable to analyse the balances on settlement by the end-users of the Group's electricity and capacity.

The Group had the following significant balances with CFS:

	Note	31 December 2009	31 December 2008
Trade and other receivables	12	1,232	1,181
Accounts payable	19	950	486

The Group had the following significant transactions with CFS:

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity and capacity		23,026	20,163
Purchased electricity and capacity	22	13,276	16,172

**Note 22. Operating expenses**

	Year ended 31 December 2009	Year ended 31 December 2008
Purchased electricity and capacity	26,725	34,661
Depreciation of property, plant and equipment	11,811	9,333
Electricity distribution expenses	10,673	12,415
Third parties services, including:	8,858	9,650
Repairs and maintenance	2,108	2,089
Services of SO-CDU, NP Council Market, CFS	2,058	2,417
Services of subcontracting companies	1,041	1,369
Consulting, legal and information expenses	675	698
Insurance cost	586	601
Rent	530	526
Security expenses	524	552
Transportation expenses	266	330
Other third parties services	1,070	1,068
Employee benefit expenses (including payroll taxes, share option plan expenses and pension benefit expenses)	8,261	8,132
Loss on disposal of property, plant and equipment, net (Note 1)	5,856	303
Taxes other than on income	5,434	5,145
Other materials	1,159	1,367
Write-off and impairment of accounts receivable	1,008	1,088
Water usage expenses	888	855
Social charges	340	328
Insurance compensation (Note 12)	(6,046)	-
Other expenses	1,083	1,382
<b>Total operating expenses</b>	<b>76,050</b>	<b>84,659</b>

The loss on disposal of property, plant and equipment primarily includes the losses related to the write-off due to accident at Sayano-Shushenskaya HPP amounting to RR 5,604 million (Notes 1, 7).

**Insurance indemnity from OJSC IC ROSNO**

Property, plant and equipment damaged in the accident at Sayano-Shushenskaya HPP (Note 1) were insured under the insurance contract with OJSC IC ROSNO (hereinafter referred to as "Insurer") dated 25 December 2008 (hereinafter referred to as the "Insurance Contract"). Under the Insurance Contract, in case of an insurance event the Insurer shall compensate the losses incurred by the Company within the indemnity limit fixed at USD 200,000,000. Under the Insurance Contract, the Company's losses are compensated in the amount of expenses required to restore the insured property to the condition it was in immediately prior to the insurance event, and any additional expenses of the Company in connection with the insurance event.

An insurance asset has been recognised, to the extent its recoverability was considered by management as virtually certain, as at the end of reporting period in the amount of USD 199,950,000 (RR 6,046 million). The amount of insurance indemnity is recorded within operating expenses (Notes 7, 12).

On 9 February 2010 the Company and the Insurer signed an Agreement on the procedure for fulfilment of obligations under the Insurance Contract. Under this Agreement:

- the amount of the damage as a result of the accident at Sayano-Shushenskaya HPP on 17 August 2009 as determined in the Expert Report exceeds the indemnity limit of USD 200,000,000;
- the maximum amount of the insurance indemnity to be paid (with the unconditional franchise taken into account) as per the Insurance Contract is the RR equivalent of USD 199,950,000.

The Insurer made the first payment of RR 753 million under the insurance indemnity to the Company on 19 February 2010, and the second payment of RR 1,712 million was made on 12 March 2010.

**RusHydro Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2009**

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**Note 23. Finance costs**

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4,934	1,911
Interest expense	(2,445)	(1,825)
Interest expense on discounting*	(1,014)	(218)
Loss on derivative financial instruments	(1,266)	(394)
Finance lease expense	(300)	(534)
Other income / (expense)	77	(435)
<b>Finance costs</b>	<b>(14)</b>	<b>(1,495)</b>

\* Interest expense on discounting includes the effect of elimination of profit in BoGES Group resulted from renegotiation of the terms of the promissory notes in the amount RR 3,277 million (Note 8).

**Note 24. Earnings per share**

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued (thousand of shares)	249,523,146	215,648,245
Profit/(loss) attributable to the shareholders of the Company	30,667	(19,956)
<b>Weighted average earnings per share – basic and diluted* (in RR)</b>	<b>0.1229</b>	<b>(0.0925)</b>

\* Share option programme of the Group (Note 6) has no dilutive effect for the periods presented.

**Note 25. Derivative financial instruments**

To reduce the Group's foreign exchange risk and interest rate risk exposure, in 2008 the Group entered into derivative financial instrument transactions with two foreign banks having an investment grade rating within the range Aa1-Aa3 as assessed by the Standard & Poor's rating agency on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of foreign exchange forward contracts and interest rate swap contracts entered into by the Group:

	31 December 2009		31 December 2008	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards: fair values of:				
- USD forwards	-	1,150	-	34
- EURO forwards	-	-	52	7
- CHF forwards	-	14	-	9
Interest rate swaps	-	285	55	451
<b>Total</b>	<b>-</b>	<b>1,449</b>	<b>107</b>	<b>501</b>
Less non-current portion of interest rate swaps	-	-	-	240
<b>Current portion</b>	<b>-</b>	<b>1,449</b>	<b>107</b>	<b>261</b>

The full fair value of interest rate swaps is classified as other current assets (Note 13), current and non-current debt (Note 17). The full fair value of foreign exchange forwards is classified as other current assets (Note 13) and accounts payable and accruals (Note 19).

The fair value hierarchy into which the fair values of derivative financial instruments are categorised is disclosed in Note 30.

**Note 26. Commitments**

**Social commitments.** The Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and

maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which they operate.

**Capital commitments.** In May 2006 the Company and RUSAL Group entered into an agreement for mutual financing, completion and subsequent operation of the Boguchanskaya HPP, with an installed capacity of 3,000 MW, and Boguchansky aluminium plant, with a capacity of 597,000 tonnes of aluminium per annum. The Company and Rusal Group agreed to finance the construction on a parity basis.

Boguchanskaya HPP is intended to be launched in stages, with an expected commissioning of 3 hydroelectric generators with installed capacity of 1,000 MW in the 4<sup>th</sup> quarter 2010 and 1,000 MW per annum in 2011 – 2012. Boguchanskaya HPP is intended to supply electricity to both Boguchansky aluminium plant and other consumers in Siberia, and it is expected to help cover any winter peak power deficit in Siberia.

Due to the dramatic fall in aluminium prices resulting from the global economic crisis, the parties suspended construction of the aluminium plant, with the date of commissioning of the first phase postponed until December 2011. However, it was decided to proceed with the construction of the Boguchanskaya HPP and commission its first phase in the 4<sup>th</sup> quarter 2010. The Company believes that, even if the aluminium plant is not completed, there will be demand in that region for Boguchanskaya HPP's output of electricity.

The total investment to be contributed into the project by the Company and RUSAL Group amounts to RR 118,301 million from 2010 to 2014 in accordance with the Company's investment programme. Both the Company and RUSAL Group have committed to finance the construction equally. The Group financed RR 5,269 million for the year ended 31 December 2009.

Other future capital expenditures in accordance with contractual obligations amounted to RR 44,084 million as at 31 December 2009 (31 December 2008: RR 31,598 million). The major part of future capital expenditures under contractual obligations as at 31 December 2009 are related to the following hydro power stations: Zagorskaya HAEP-2 in the amount of RR 16,446 million, mainly due to the construction of the station, Sayano-Shushenskaya HPP in the amount of RR 13,711 million, mainly due to the reconstruction programme and Saratovskaya HPP in the amount of RR 2,418 million, mainly due to the equipment delivery.

#### **Note 27. Contingencies**

**Political environment.** The operations and earnings of the Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation.

**Insurance.** The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed for those risks for which it does not have insurance.

**Legal proceedings.** The Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

**Tax contingencies.** Russian tax, currency and customs legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Due to the fact, that the tax and other legislation does not fully cover all the aspects of the Group reorganisation, there might be respective legal and tax risks.

Management believes that as at 31 December 2009 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in the Consolidated Financial Statements.

**Environmental matters.** The Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually

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being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

**Guarantees.** Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

Name of counterparty	Debtor	Nature of relationship	31 December 2009	31 December 2008
Barclays Bank PLC	CJSC Boguchansky Aluminium Plant	Joint venture Lessor of the Group	7,864	7,639
OJSC Bank of Moscow	LLC IR Leasing	Lessor of the Group	-	1,423
OJSC Bank of Moscow	OJSC HMLK Otkritie	Group	-	491
Areva T&D S.A.	CJSC Boguchansky Aluminium Plant	Joint venture	1,054	1,374
Solios Environnement S. A.	CJSC Boguchansky Aluminium Plant	Joint venture	712	774
CJSC Commerzbank (Eurasia)	CJSC Boguchansky Aluminium Plant	Joint venture	185	167
Brochot S. A.	CJSC Boguchansky Aluminium Plant	Joint venture	11	41
Societe des Technologies de l'Aluminium du Saguenay Inc.	CJSC Boguchansky Aluminium Plant	Joint venture	20	19
<b>Total</b>			<b>9,846</b>	<b>11,928</b>

In March 2007 the Company issued a guarantee for a loan of USD 520 million raised by CJSC Boguchansky Aluminium Plant to finance BEMA project. The loan period is 3 years and the average interest rate is LIBOR+0.825 percent. The managers and underwriters of the loan are ABN Amro, Barclays Bank PLC, Calyon and Sberbank of Russia. The borrowings are used for the construction of Boguchansky aluminium plant and completion of Boguchanskaya HPP. The Company's guarantee provides for 50 percent of the borrower's liabilities under the loan agreement; the remaining 50 percent of the liabilities are secured by the guarantee and surety provided by the RUSAL Group entities. The fair value of the guarantees was assessed as at 31 December 2009 and a liability in the amount of RR 24 million was recognised (31 December 2008: RR 103 million). The guarantee was terminated due to the repayment of the loan and the accrued interest by CJSC Boguchansky Aluminium Plant on 15 March 2010 (Note 32).

The Group issued guarantees for two loans raised by OJSC HMLK Otkritie and LLC IR Leasing to finance equipment purchases for Bureiskaya HPP, the Company's branch. The interest rate on the loans is 11 percent. The fair value of the guarantees was assessed as at 31 December 2008 and a liability in the amount of RR 58 million was recognised. The loans were repaid in 2009.

Remaining guarantees were issued to suppliers for future equipment deliveries to jointly controlled entity.

**Note 28. Financial risk management**

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Credit risk.** Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collection of receivables could be influenced by economic factors, management believes that there

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is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

For Group customers there is no independent rating and therefore the Group considers the credit quality of the customer at the contract execution stage. The Group considers the customer's financial position and its credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Group approved the list of banks for deposits, as well as rules for their placement. Moreover, the Group constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 13 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position (Note 31).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for off-balance sheet financial instruments is as follows:

	31 December 2009	31 December 2008
Financial guarantees – amount of guaranteed loans	9,966	12,737
<b>Total off-balance sheet exposure</b>	<b>9,966</b>	<b>12,737</b>

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, and (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

**Currency risk.** Electric power produced by the Group is sold on the domestic market of the Russian Federation with prices fixed in the currency of the Russian Federation. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities be denominated in the national currency.

Also the Company acts as a surety on currency obligations of CJSC Boguchansky Aluminium Plant at the rate of 50 percent (the remaining 50 percent are guaranteed by the RUSAL Group entities) and plans to provide funds to make necessary payments by means of financing through the company HydroOGK Aluminium Company Ltd. As foreign currency revenues on the BEMA project are expected not earlier than 2010, the Company's management took a decision to reduce foreign currency risk on the BEMA project.

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The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2009				31 December 2008			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
US Dollars	320	(3,097)	(1,150)	(3,927)	1	(2,961)	(34)	(2,994)
Euros	1,258	(11)	-	1,247	13	(17)	45	41
Other	-	-	(14)	(14)	2	-	(9)	(7)
<b>Total</b>	<b>1,578</b>	<b>(3,108)</b>	<b>(1,164)</b>	<b>(2,694)</b>	<b>16</b>	<b>(2,978)</b>	<b>2</b>	<b>(2,960)</b>

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 25. The net total represents the fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

**Interest rate risk.** The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates. Borrowings issued at variable rates (Note 17) expose the Group to cash flow interest rate risk.

The Company obtains most debt financing in the national currency with floating rate, which are established on the basis of the MOSPRIME rate, LIBOR.

As at 31 December 2009, if interest rates at that date had been 0.5 percent higher (31 December 2008: 0.5 percent higher), with all other variables held constant, profit would have been RR 56 million (31 December 2008: RR 56 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the respective end of the reporting period are disclosed in Note 17.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions;
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying of typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because the Consolidated Statement of Financial Position amount is based on discounted cash flows.

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The maturity analysis of financial liabilities as at 31 December 2009 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
<b>Liabilities</b>				
Current and non-current debt (Note 17)	2,621	7,340	13,167	6,933
Trade payables (Note 19)	8,602	-	-	-
Financial guarantees (Note 27)	7,984	31	1,951	-
Dividends payable	19	-	-	-
Finance lease liabilities (Note 17)	1,160	914	1,295	43
Gross settled swaps and forwards (Note 25)				
-inflows	7,929	-	-	-
-outflows	(9,080)	-	-	-
Net settled derivatives (Note 25)	(291)	-	-	-
<b>Total future net payments, including future principal and interest payments</b>	<b>18,944</b>	<b>8,285</b>	<b>16,413</b>	<b>6,976</b>

The maturity analysis of financial liabilities as at 31 December 2008 is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
<b>Liabilities</b>				
Current and non-current debt (Note 17)	1,813	2,854	17,419	9,875
Trade payables (Note 19)	4,671	-	-	-
Financial guarantees (Note 27)	1,578	8,784	2,375	-
Dividends payable	21	-	-	-
Finance lease liabilities (Note 17)	2,257	1,165	-	78
Gross settled swaps and forwards (Note 25)				
- inflows	2,027	-	-	-
- outflows	(2,022)	-	-	-
Net settled derivatives (Note 25)	(424)	-	-	-
<b>Total future net payments, including future principal and interest payments</b>	<b>9,921</b>	<b>12,803</b>	<b>19,794</b>	<b>9,953</b>

**Note 29. Management of capital**

The Group's capital risk management has as key objectives compliance with the Russian legislation requirements and policy of capital cost reduction.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital can not be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2009 the Company was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2009 was RR 403,283 million (31 December 2008: RR 343,613 million).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total

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capital. Debt is calculated as sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. Gearing ratios were 0.05 as at 31 December 2009 and 0.07 as at 31 December 2008 respectively.

The Group's policy of capital risk management is based on the following financial ratios: debt to EBITDA ratio, interest payments coverage by EBITDA (Note 17) and debt coverage by revenue.

The ratio of debt to revenue was 0.19 as at 31 December 2009 and 0.22 as at 31 December 2008.

#### Note 30. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Available-for-sale financial assets and financial derivatives are carried in the statement of financial position at their fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised is as follows:

	31 December 2009			31 December 2008		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
<b>Financial assets</b>						
<b>Investment securities available for sale</b>						
Corporate shares	6,746	-	99	1,537	375	99
<b>Other financial assets</b>						
Foreign exchange forward contracts	-	-	-	-	52	-
Other financial derivatives	-	-	-	-	55	-
<b>Total financial assets carried at fair value</b>	<b>6,746</b>	<b>-</b>	<b>99</b>	<b>1,537</b>	<b>482</b>	<b>99</b>
<b>Financial liabilities</b>						
<b>Other financial liabilities</b>						
Foreign exchange forward contracts	-	(1,164)	-	-	(50)	-
Other derivative financial instruments	-	(285)	-	-	(451)	-
<b>Total financial liabilities carried at fair value</b>	<b>-</b>	<b>(1,449)</b>	<b>-</b>	<b>-</b>	<b>(501)</b>	<b>-</b>

**Financial assets carried at amortised cost.** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new

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instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values (Note 12).

**Liabilities carried at amortised cost.** The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used ranged from 8.57 percent p.a. to 13.90 percent p.a. depending on the length and currency of the liability.

Refer to Note 17 for the estimated fair values of borrowings. Carrying amounts of trade and other payables approximate fair values.

**Note 31. Presentation of financial instruments by measurement category**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss (hereinafter referred to as "FVTPL").

The following table provides a reconciliation of classes of financial assets with these measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2009:

	Loans and receivables	Available-for- sale financial assets	Assets at fair value through the profit and loss	Total
<b>Assets</b>				
<b>Other non-current assets (Note 10)</b>	16,741	-	-	16,741
Promissory notes and deposits	16,522	-	-	16,522
Long-term loans receivable	219	-	-	219
<b>Available-for sale financial assets (Note 9)</b>	-	6,845	-	6,845
<b>Trade and other receivables (Note 12)</b>	7,478	-	-	7,478
Trade receivables	7,095	-	-	7,095
Promissory notes receivable	383	-	-	383
<b>Other current assets (Note 13)</b>	10,460	-	-	10,460
Promissory notes and deposits	10,460	-	-	10,460
Derivative financial instruments	-	-	-	-
<b>Cash and cash equivalents (Note 11)</b>	48,152	-	-	48,152
<b>Total financial assets</b>	<b>82,831</b>	<b>6,845</b>	-	<b>89,676</b>
<b>Non-financial assets</b>	-	-	-	<b>393,579</b>
<b>Total assets</b>	<b>82,831</b>	<b>6,845</b>	-	<b>483,255</b>

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as they are held for trading.

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The following table provides a reconciliation of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2008:

	Loans and receivables	Available-for-sale financial assets	Assets at fair value through the profit and loss	Total
<b>Assets</b>				
<b>Other non-current assets (Note 10)</b>	<b>12,156</b>	-	-	<b>12,156</b>
Promissory notes and deposits	11,943	-	-	11,943
Long-term loans receivable	213	-	-	213
<b>Available-for-sale financial assets (Note 9)</b>	-	<b>2,011</b>	-	<b>2,011</b>
<b>Trade and other receivables (Note 12)</b>	<b>15,011</b>	-	-	<b>15,011</b>
Trade receivables	6,363	-	-	6,363
Promissory notes receivable	8,648	-	-	8,648
<b>Other current assets (Note 13)</b>	<b>4,727</b>	-	<b>107</b>	<b>4,834</b>
Promissory notes and deposits	4,727	-	-	4,727
Derivative financial instruments	-	-	107	107
<b>Cash and cash equivalents (Note 11)</b>	<b>24,838</b>	-	-	<b>24,838</b>
<b>Total financial assets</b>	<b>56,732</b>	<b>2,011</b>	<b>107</b>	<b>58,850</b>
<b>Non-financial assets</b>	-	-	-	<b>367,521</b>
<b>Total assets</b>	<b>56,732</b>	<b>2,011</b>	<b>107</b>	<b>426,371</b>

**Note 32. Subsequent events**

**Start of hydraulic units at Sayano-Shushenskaya HPP.** Following the accident at the plant (Note 1) on 24 February 2010 hydraulic unit No. 6 (GA-6) and on 22 March 2010 hydraulic unit No. 5 (GA-5) of Sayano-Shushenskaya HPP were restarted. Commercial operation of these units has provided the basic capacity of 1,280 MW, minimised the risks of flooding and guaranteed water supply to the population, industrial and social facilities, located downstream of the Sayano-Shushenskaya HPP.

**Security issued for liabilities and charges.** On 15 March 2010 the Company's guarantee issued to the benefit of the syndicate of banks for 50 percent obligations of CJSC Boguchansky Aluminium Plant under the loan agreement dated 15 March 2007 (Note 27) was terminated due to the repayment of the loan and the accrued interest by CJSC Boguchansky Aluminium Plant.

**Approval of the Company's investment programme for 2010.** On 9 March 2010 the Company's Board of Directors approved the Company's investment programme for 2010. Total investment is planned in the amount of RR 97.1 billion.

The planned investment programme of modernisation and repairs in 2010 will amount to RR 12.2 billion. This programme will significantly increase the level of technological security, reliability and efficiency of facilities operation due to the renovation of both principal and auxiliary equipment, as well as through the implementing the advanced monitoring and control systems for the Company's hydropower plants.

Financing of the Company's projects under construction is planned in the amount of RR 64.6 billion, out of which RR 37.4 billion will be used to finance the BEMA project (Note 27) and RR 15.4 billion for construction of Zagorskaya HAEPP-2.

The planned funds for the rehabilitation programme of the Sayano-Shushenskaya HPP will amount to RR 16.1 billion. In addition, the Company's investment programme includes funding for the construction of the shore spillway of Sayano-Shushenskaya HPP in the amount of RR 3.5 billion. The first stage of the shore spillway is planned to be completed by June 2010.

**Changes in the Employee's Share Option Programme.** On 11 February 2010 the Company's Board of Directors approved the amendments to the Share Option Programme (Note 6), which extend the period during which participants can exercise their options up to 2 years after 2 September 2010.

**Approval of the acquisition of Energy retail companies.** On 2 April 2010 the Company's Board of Directors approved an intention of the Group to acquire a 50.90 percent share in OJSC Mosenergosbyt, a 49.00 percent share in OJSC Peterburgskaya Energy Retail Company, a 49.01 percent share in OJSC Tambovskaya Energy Retail Company, a 48.36 percent share in OJSC Saratovenergo, a 100 percent share in OJSC Altayenergosbyt, a 100 percent share in OJSC United Energy Company from JSC RAO Energy System of East. The price of the above shares will be determined by independent appraisal.

## XVI. Contact Details

<b>Full business name of the Company</b>	Open joint stock company RusHydro
<b>Abbreviated Company business name</b>	JSC RusHydro
<b>Company location</b>	51 Respubliki Street, Krasnoyarsk, the Krasnoyarsk Region, Russia
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<b>Fax</b>	+7 (495) 225 – 3737
<b>Russian-language web site</b>	<a href="http://www.rushydro.ru">www.rushydro.ru</a>
<b>English-language web site</b>	<a href="http://www.eng.rushydro.ru">www.eng.rushydro.ru</a>
Account details	
<b>Operating account</b>	40702810400020107810
<b>Bank name</b>	JSC Sberbank of Russia
<b>Bank identification code</b>	044525225
<b>Correspondent account</b>	30101810400000000225

### *Contact information for the Company's shareholders and investors*

Shareholders of JSC RusHydro have the opportunity to ask questions directly via the Company's telephone hotline (toll-free for all Russian residents) and by e-mail, as well.

Contacts for JSC RusHydro's shareholders:

Hotline telephone: +7 800 555-9997  
[rusgidro@mcd.ru](mailto:rusgidro@mcd.ru)

### *Investor Relations*

JSC RusHydro's Investor Relations and International Cooperation Division:

Telephone: +7 (495) 225–3232  
Fax: +7 (495) 225–3737  
[goldinae@gidroogk.ru](mailto:goldinae@gidroogk.ru)

### *Information on the Company's registrar*

In full accordance with relevant Russian Federation legislation, a register of JSC RusHydro's shareholders is maintained by its registrar – Open Joint Stock Company Central Moscow Depository. The registrar is a professionally licensed (license #10-000-1-00255) participant on the domestic securities market.

Full business name of the registrar: Open Joint Stock Company Central Moscow Depository  
Abbreviated business name: OJSC Central Moscow Depository, OJSC CMD

Location:

Building B, 3 Orlikov Lane, Moscow, Russia 107078

Mailing address:

Building 8, 34 Bolshaya Pochtovaya Street, Moscow, Russia 105082

Phone: +7 (495) 221-1333

Fax: +7 (495) 221-1383

[mcdepo@dol.ru](mailto:mcdepo@dol.ru)

[www.mcd.ru](http://www.mcd.ru)

*Information on the Company's auditor*

Full business name: Closed Joint Stock Company PriceWaterhouseCoopers Audit (CJSC PricewaterhouseCoopers Audit)

Location:

White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047

Mailing address:

White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047

Phone: +7 (495) 967-6000

Fax: +7 (495) 967-6001

[pwc.russia@ru.pwc.com](mailto:pwc.russia@ru.pwc.com)

*Depository bank*

The Bank of New York Mellon ([www.bnymellon.com](http://www.bnymellon.com)) serves as the depository bank managing the Company's existing GDR programs.

Depository bank contact details:

Moscow Division	ADR EEMEA RELATIONSHIP MANAGEMENT NY
<i>Irina Baichorova</i> Phone: +7 (495) 721-7155 <a href="mailto:irina.baichorova@bnymellon.com">irina.baichorova@bnymellon.com</a>	<i>Vladimir Kotlikov</i> Phone: +1 (212) 815-5948 Fax: +1 (212) 571-3050 Mobile: +1 (917) 584-7470 <a href="mailto:vladimir.kotlikov@bnymellon.com">vladimir.kotlikov@bnymellon.com</a>  <i>Azat Nougumanov</i> Phone: +1 (212) 815-2570 Fax: +1 (732) 667-4575 Mobile: +1 (646) 284-1412 <a href="mailto:azat.nougumanov@bnymellon.com">azat.nougumanov@bnymellon.com</a>

## XVII. Appendices

### *JSC RusHydro branches:*

<b>Branch name</b>	<b>Location and contact details</b>	
Bureyskaya HPP Branch	Talakan, the Bureysky District, the Amur Region, Russia  Phone: +7 (416) 34 5-2359 <a href="mailto:bureyahpp@gidroogk.ru">bureyahpp@gidroogk.ru</a>	<a href="http://www.burges.rushydro.ru/">http://www.burges.rushydro.ru/</a>
Volzhskaya HPP Branch	1A Prospekt Lenina, Volzhskiy, the Volgograd Region, Russia  Phone: +7 (844) 334-1313 <a href="mailto:office@vges.ru">office@vges.ru</a>	<a href="http://www.volges.rushydro.ru/">http://www.volges.rushydro.ru/</a>
Votkinskaya HPP Branch	Tchaikovsky, the Perm Territory, Russia  Phone: +7 (342) 417-0359 <a href="mailto:borisovalp@votges.voheg.ru">borisovalp@votges.voheg.ru</a>	<a href="http://www.votges.rushydro.ru/">http://www.votges.rushydro.ru/</a>
Dagestan Branch	5 M. Khalilova St., Kaspiysk, the Republic of Dagestan, Russia  Phone: +7 (872) 255-0605 <a href="mailto:drgek@drgek.ru">drgek@drgek.ru</a>	<a href="http://www.dagestan.rushydro.ru/">http://www.dagestan.rushydro.ru/</a>
Zhigulevskaya HPP Branch	Zhigulevsk, the Samara Region, Russia  Phone: +7 (848) 627-9359 <a href="mailto:kutianina@volges.vohec.ru">kutianina@volges.vohec.ru</a>	<a href="http://www.zhiges.rushydro.ru/">http://www.zhiges.rushydro.ru/</a>
Zagorskaya PSHP Branch	100 Bogorodskoye, the Sergievo-Posadskiy District, the Moscow Region, Russia  Phone: +7 (495) 957-26 52 and +7 (496) 545-3518 <a href="mailto:zagaes@zagaes.ru">zagaes@zagaes.ru</a>	<a href="http://www.zagaes.rushydro.ru/">http://www.zagaes.rushydro.ru/</a>
Zeiskaya HPP Branch	Zeiya, the Amur Region, Russia  Phone: +7 (416) 58 2-4531 <a href="mailto:kirianenko@zges.amur.ru">kirianenko@zges.amur.ru</a>	<a href="http://www.zges.rushydro.ru/">http://www.zges.rushydro.ru/</a>
Irganaiskaya HPP Branch	Shamilkala, the Untsukul'skiy District, the Republic of Dagestan, Russia	<a href="http://www.irgges.rushydro.ru/">http://www.irgges.rushydro.ru/</a>
Kabardino-Balkarian Branch	1A Mechieva St., the Cherek District, the Kabardino-Balkar	<a href="http://www.kbf.rushydro.ru/">http://www.kbf.rushydro.ru/</a>

Branch name	Location and contact details	
	Republic, Russia  Phone: +7 (866) 297-5238 <a href="mailto:TakuevaMM@gidroogk.ru">TakuevaMM@gidroogk.ru</a>	
Kamskaya HPP Branch	The Kamskaya HPP, Perm, Russia  Phone: +7 (342) 273-4684 <a href="mailto:officekamges@kamges.gidroogk.ru">officekamges@kamges.gidroogk.ru</a>	<a href="http://www.kamges.rushydro.ru/">http://www.kamges.rushydro.ru/</a>
Karachay-Cherkessian Branch	Pravokubanskiy, the Karaechnovo-Cherkessia Republic, Russia  Phone: +7 (878) 226-7040 <a href="mailto:priemges@zelges.ru">priemges@zelges.ru</a>	<a href="http://www.kchf.rushydro.ru/">http://www.kchf.rushydro.ru/</a>
Cascade of Verkhnevolzhskiy HPPs Branch	Rybinsk, the Yaroslavl Region, Russia  Phone: +7 (485) 529-7459 <a href="mailto:office@kvvges.vohec.ru">office@kvvges.vohec.ru</a>	<a href="http://www.kvvges.rushydro.ru/">http://www.kvvges.rushydro.ru/</a>
Cascade of Kubanskiye HPPs Branch	360A Vodoprovodnaya St., Nevinnomyssk, the Stavropol Territory, Russia  Phone: +7 (865) 546-8001 <a href="mailto:kanz@segk.ru">kanz@segk.ru</a>	<a href="http://www.kkges.rushydro.ru/">http://www.kkges.rushydro.ru/</a>
Corporate Hydro-power University Branch	8A Prospekt Vernadskogo, Moscow, Russia  Phone: +7 (495) 540-3012, ext. 4008 <a href="mailto:LebedevaAV@gidroogk.ru">LebedevaAV@gidroogk.ru</a>	<a href="http://www.korong.rushydro.ru/">http://www.korong.rushydro.ru/</a>
Nizhegorodskaya HPP Branch	Zavolzhye, the Gorodets District, the Nizhniy Novgorod Region, Russia  Phone: +7 (831) 693-2140 <a href="mailto:morevasf@nigges.vohec.ru">morevasf@nigges.vohec.ru</a>	<a href="http://www.nizhges.rushydro.ru/">http://www.nizhges.rushydro.ru/</a>
Novosibirskaya HPP Branch	4 Novomorskaya St., Novosibirsk, Russia  Phone: +7 (383) 345-9555 <a href="mailto:Svarevd@gidroogk.ru">Svarevd@gidroogk.ru</a> <a href="mailto:kutkinasg@gidroogk.ru">kutkinasg@gidroogk.ru</a>	<a href="http://www.nges.rushydro.ru/">http://www.nges.rushydro.ru/</a>
Saratovskaya HPP Branch	Balakovo, the Saratov Region, Russia  Phone: +7 (845) 344-2065 <a href="mailto:goryunovaen@gidroogk.ru">goryunovaen@gidroogk.ru</a>	<a href="http://www.sarges.rushydro.ru/">http://www.sarges.rushydro.ru/</a>
Neporozhniy Sayano-	Cheremushki, Sayanogorsk, the	<a href="http://www.sshges.rushydro.ru/">http://www.sshges.rushydro.ru/</a>

Branch name	Location and contact details	
Shushenskaya HPP Branch	Republic of Khakassia, Russia Phone: +7 (390) 423-2627 <a href="mailto:offissges@gidroogk.ru">offissges@gidroogk.ru</a>	
Northern Ossetian Branch	63 Vaso Abaev St., Vladikavkaz, the Republic of North Ossetia- Alania, Russia Phone: +7 (867) 253-66 34 <a href="mailto:soggk@osetia.ru">soggk@osetia.ru</a>	<a href="http://www.osetia.rushydro.ru/">http://www.osetia.rushydro.ru/</a>
Cheboksarskaya HPP Branch	34 Naberezhnaya St., Novocheboksarsk, the Chuvash Republic, Russia Phone: +7 (835) 273-7506 <a href="mailto:office@chenges.vohec.ru">office@chenges.vohec.ru</a>	<a href="http://www.cheges.rushydro.ru/">http://www.cheges.rushydro.ru/</a>

### *JSC RusHydro Subsidiary and dependent companies (SDCs)*

<b>Company</b>	<b>Share of JSC RusHydro, %</b>	<b>Web site</b>
LLP Direction for the reconstruction of the Sayano-Shushenskaya HPP	100	<a href="http://www.rushydro.ru/direction_sshges/">http://www.rushydro.ru/direction_sshges/</a>
JSC Elektroremont VKK	100	<a href="http://www.ervkk.rushydro.ru">http://www.ervkk.rushydro.ru</a>
JSC ESC RusHydro	100	<a href="http://www.rushydro.ru/esk">http://www.rushydro.ru/esk</a>
JSC ESCO UES	100	<a href="http://www.esko-ees.rushydro.ru">http://www.esko-ees.rushydro.ru</a>
JSC Far East Wind Power Plant	100	<a href="http://www.rushydro.ru/dves">http://www.rushydro.ru/dves</a>
LLP HidroOGK Index of Energy	100	
JSC Hidroremont VKK	100	<a href="http://www.hvkk.rushydro.ru">http://www.hvkk.rushydro.ru</a>
CJSC HydroEngineering Siberia	100	<a href="http://www.rushydro.ru/hydroengineering">http://www.rushydro.ru/hydroengineering</a>
JSC Hydrogeneration Company of Karachaevo-Cherkessiya	100	<a href="http://www.rushydro.ru/kchggk">http://www.rushydro.ru/kchggk</a>
JSC HydroInvest	100	<a href="http://www.rushydro.ru/hydroinvest">http://www.rushydro.ru/hydroinvest</a>
JSC Lenhydroproject	100	<a href="http://www.lhp.rushydro.ru">http://www.lhp.rushydro.ru</a>
JSC Malaya Mezenskaya PES	100	<a href="http://www.tidal-mezen.rushydro.ru">http://www.tidal-mezen.rushydro.ru</a>
JSC MC RusHydro	100	<a href="http://www.mc.rushydro.ru">http://www.mc.rushydro.ru</a>
JSC Nizhne-Bureiskaya HPP	100	<a href="http://www.rushydro.ru/nbges">http://www.rushydro.ru/nbges</a>
JSC Nizhne-Kureiskaya HPP	100	<a href="http://www.rushydro.ru/nkges">http://www.rushydro.ru/nkges</a>
JSC Nizhne-Zeiskaya HPP	100	<a href="http://www.nzges.rushydro.ru">http://www.nzges.rushydro.ru</a>
JSC Prometey	100	<a href="http://www.prometey.rushydro.ru">http://www.prometey.rushydro.ru</a>
JSC REMIC	100	<a href="http://www.remik.rushydro.ru">http://www.remik.rushydro.ru</a>
JSC Renewable Energy Engineering Center	100	<a href="http://www.reec.rushydro.ru/">http://www.reec.rushydro.ru/</a>
JSC Sayano-Shushenskaya HPP Service Support Center	100	<a href="http://www.rushydro.ru/cheremushki">http://www.rushydro.ru/cheremushki</a>
JSC Scientific Research Institute of Energy Structures (NIIES)	100	<a href="http://www.niies.ru">http://www.niies.ru</a>
JSC South Yakutia HPC	100	<a href="http://www.yakutia.rushydro.ru">http://www.yakutia.rushydro.ru</a>
JSC SSHPR	100	<a href="http://www.rushydro.ru/sshger">http://www.rushydro.ru/sshger</a>
JSC SSSATC	100	<a href="http://www.rushydro.ru/ssatc">http://www.rushydro.ru/ssatc</a>
JSC Sulaksiy HydroCascade	100	<a href="http://www.sulak.rushydro.ru">http://www.sulak.rushydro.ru</a>
JSC Turboremont VKK	100	<a href="http://www.turboremont.rushydro.ru">http://www.turboremont.rushydro.ru</a>
JSC VNIIG	100	<a href="http://www.vniig.rushydro.ru">http://www.vniig.rushydro.ru</a>
JSC Zagorskaya GAES-2	100	<a href="http://www.zagaes2.rushydro.ru">http://www.zagaes2.rushydro.ru</a>
JSC ZHS	95.46	<a href="http://www.zaramag.rushydro.ru">http://www.zaramag.rushydro.ru</a>
JSC Geotherm	79.84	<a href="http://www.geotherm.rushydro.ru">http://www.geotherm.rushydro.ru</a>
JSC Chirkeigesstroy	74.99	<a href="http://www.chirkeigesstroy.ru">http://www.chirkeigesstroy.ru</a>
JSC Kolymaenergo	64.27	<a href="http://www.kolymaenergo.rushydro.ru">http://www.kolymaenergo.rushydro.ru</a>
JSC EI Verchne-Mutnovsky GeoPP	48.04	<a href="http://www.vmgeopp.rushydro.ru">http://www.vmgeopp.rushydro.ru</a>
JSC EMCC	42.54	<a href="http://www.gvc.elektra.ru">http://www.gvc.elektra.ru</a>

JSC Jarky	25	
JSC OGK-1	21.71	<a href="http://www.ogk1.com">http://www.ogk1.com</a>
JSC Ural Energy Management Company	20.67	<a href="http://www.te.ru">http://www.te.ru</a>
LLC IT Energy Service	19.99	<a href="http://www.it-energy.ru">http://www.it-energy.ru</a>
CJSC Construction Organizer for the Boguchanskaya HPP	51	<a href="http://www.rusengineering.ru">http://www.rusengineering.ru</a>
CJSC Construction Customer for the Boguchanskaya Smelter	51	<a href="http://www.rusengineering.ru">http://www.rusengineering.ru</a>
CJSC Construction Customer for the Boguchanskaya HPP	49	<a href="http://www.rusengineering.ru">http://www.rusengineering.ru</a>
CJSC Construction Organizer for the Boguchanskaya Smelter	49	<a href="http://www.rusengineering.ru">http://www.rusengineering.ru</a>
Private company limited by shares HYDRO-OGK ALUMINIUM COMPANY LIMITED	99.99	
Private company limited by shares HYDRO-OGK POWER COMPANY LIMITED	99.99	
RusSUNHydro (private company limited by shares)	50	

*Transactions, completed by JSC RusHydro in 2009 and recognized by the Russian Federal law "On joint stock companies," as interested party transactions*

№	Transaction details (including information on parties to the transaction)	Number and date of the protocol and management organ that approved the transaction	Transaction description (subject, price, approval date)	Interested party (parties) and dependent director (directors)
1	Transaction between JSC RusHydro and the Russian Federation – in the person of the Russian Energy Ministry and the Federal Agency for Property Management	Protocol № 71 from JSC RusHydro's Board of Directors 23.01.2009	<b>Subject</b> Buying and selling additional shares of JSC RusHydro <b>Price</b> RUR 3,998,000,000 <b>Date</b> 11.02.2009	<b>Interested party:</b> Russian Federation <b>Dependent director:</b> Zubakin, V.A.
2	Transaction (concluded non-exchange, free, bi-lateral agreement to buy and sell energy and capacity) between JSC RusHydro and JSC Krasnoyarskbyt with respect to the Group for delivery points for the Sayano-Shushenskaya HPP	Protocol №71 from JSC RusHydro's Board of Directors 23.01.2009	<b>Subject</b> Buying and selling energy and capacity <b>Price</b> RUR 175,341,865.18 including VAT <b>Date</b> 16.02.2009	<b>Interested party:</b> Sergeyev, A.Y. <b>Dependent director:</b> Zubakin, V.A.
3	Transaction (concluded non-exchange, free, bi-lateral agreement to buy and sell energy and capacity), between JSC RusHydro and JSC Krasnoyarskbyt with respect to the Group for delivery points for the Mainskaya HPP	Protocol №71 from JSC RusHydro's Board of Directors 23.01.2009	<b>Subject</b> Buying and selling energy and capacity <b>Price</b> RUR 5,753,892.40 <b>Date</b> 16.02.2009	<b>Interested party:</b> Sergeyev, A.V. <b>Dependent director:</b> Zubakin, V.A.
4	Transaction (concluded agreement to rent a portion of land plots beneath the overhead lines of the 500 kW Vytka-Votkinskaya HPP) between JSC RusHydro and JSC FGC UES	Protocol №72 from JSC RusHydro's Board of Directors 27.02.2009	<b>Subject</b> Lease of land plots beneath the overhead lines of the 500 kW Vytka-Votkinskaya HPP <b>Price</b> RUR 65,762.51 including VAT <b>Date</b> 19.06.2009	<b>Interested parties:</b> Shmatko, S.I., Tatsiy, V.V. and Maslov, S.V. <b>Dependent director:</b> Zubakin, V.A.
5	Transaction (concluded agreement to lease portions of land plot № 1 and № 2, beneath transmission lines foundations (overhead lines of the -220 kW VHPP-Izevsk 1), located in the Perm Territory, Chaikovsky	Protocol №72 from JSC RusHydro's Board of Directors 27.02.2009	<b>Subject</b> Lease of portions of land plots № 1 and № 2, which are found beneath transmission lines foundations (overhead lines of the -	<b>Interested parties:</b> Shmatko, S.I., Tatsiy, V.V. and Maslov, S.V. <b>Dependent director:</b> Zubakin, V.A.

	Town, HPP Territory, between JSC RusHydro and JSC FGC UES		220 kV VHPP- Izevsk 1) <b>Price</b> RUR 18,764.13 including VAT <b>Date</b> 19.06.2009	
6	Transaction between JSC RusHydro and JSC INTER RAO (concluded confidentiality agreement on the control of JSC OGK-1's shares)	Protocol №72 from JSC RusHydro's Board of Directors 27.02.2009	<b>Subject</b> Services related to the confidential control of rights to shares of JSC OGK-1 <b>Price</b> RUR 60,000 including VAT – basic fee; additional fees depend on increased dividends paid on shares of JSC OGK-1 <b>Date</b> 12.03.2009	<b>Interested parties:</b> Shmatko, S.I. and Maslov, S.V. <b>Dependent director:</b> Zubakin, V.A.
7	Transaction (concluded non-exchange, free, bi-lateral agreement to buy and sell energy and capacity) between JSC RusHydro and JSC Krasnoyarskbyt with respect to the Group for delivery points for the Mainskaya HPP	Protocol №74 from JSC RusHydro's Board of Directors 03.04.2009	<b>Subject</b> Buying and selling energy and capacity <b>Price</b> RUR 810,610.38 including VAT <b>Date</b> 22.04.2009	<b>Interested party:</b> Sergeyev, A.Y. <b>Dependent director:</b> Zubakin, V.A.
8	Сделка (concluded non-exchange, free, bi-lateral agreement to buy and sell energy and capacity) between JSC RusHydro and JSC Krasnoyarskbyt with respect to the Group for delivery points for the Sayano-Shushenskaya HPP	Protocol №74 from JSC RusHydro's Board of Directors 03.04.2009	<b>Subject</b> Buying and selling energy and capacity <b>Price</b> RUR 29,273,928.17 <b>Date</b> 22.04.2009	<b>Interested party:</b> Sergeyev, A.Y. <b>Dependent director:</b> Zubakin, V.A.
9	Transaction between JSC RusHydro and JSC ESK RusHydro OAO	Protocol №74 from JSC RusHydro's Board of Directors 03.04.2009	<b>Subject</b> Assignment of a loan for the acquisition of shares of JSC Ryzan Energy Marketing Company (41.52%) <b>Price (Loan total)</b> RUR 548,500,000 <b>Date</b> 20.04.2009	<b>Interested party:</b> Zubakin, V.A. <b>Dependent director:</b> Zubakin, V.A.
10	Transaction (concluded real estate lease agreement) between JSC RusHydro and JSC MC HydroOGK	Protocol №72 from JSC RusHydro's Board of Directors 03.04.2009	<b>Subject</b> Lease of uninhabited accommodation with an area of 336.2 sq. meters. <b>Price</b> RUR 661,347.32 per month including VAT, in effect – till 28.03.2010. <b>Date</b> 03.04.2009	<b>Interested party:</b> Zubakin, V.A. <b>Dependent director:</b> Zubakin, V.A.

11	Transaction (concluded real estate lease agreement) between JSC RusHydro and JSC SO UES	Protocol №75 from JSC RusHydro's Board of Directors 28.04.2009	<b>Subject</b> Lease of uninhabited accommodation with an area of 13.5 sq. meters, located at the Saratovskaya HPP <b>Price</b> RUR 4,779 per month including VAT, for rent from 01.03.2009 till 31.12.2009 <b>Date</b> 01.05.2009	<b>Interested party:</b> Russian Federation <b>Dependent director:</b> Zubakin, V.A.
12	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Ballu, A.B.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Ballu, A.B. <b>Dependent director:</b> Zubakin, V.A.
13	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Beloborodov, S.S.	Protocol №77 from JSC Rus 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Beloborodov, S.S. <b>Dependent director:</b> Zubakin, V.A.
14	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Belyaev, B.S.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Belyaev, B.S. <b>Dependent director:</b> Zubakin, V.A.
15	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Vainhizer, B.F.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Vainhizer, B.F. <b>Dependent director:</b> Zubakin, V.A.
16	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Volkov, E.P.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Volkov, E.P. <b>Dependent director:</b> Zubakin, V.A.
17	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Danilov-Danilyan, V.I.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Danilov-Danilyan, V.I. <b>Dependent director:</b> Zubakin, V.A.
18	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Maslov, S.V.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Maslov, S.V. <b>Dependent director:</b> Zubakin, V.A.

19	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Serebrynnikov, S.V.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Serebrynnikov, S.V. <b>Dependent director:</b> Zubakin, V.A.
20	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Tatsiy, V.V.	Protocol №77 from JSC RusHydro's Board of Directors	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Tatsiy, V.V. <b>Dependent director:</b> Zubakin, V.A.
21	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Sharonov, A.V.	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 18.05.2009	<b>Interested party:</b> Sharonov, A.V. <b>Dependent director:</b> Zubakin, V.A.
22	Transaction (concluded equipment lease agreement) between JSC RusHydro and JSC Zaramagskaya HPP	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Equipment lease <b>Price</b> RUR 2,306.75 per month including VAT, lease valid from 01.01.2009 till 31.12.2011 <b>Date</b> 29.05.2009	<b>Interested party:</b> Zubakin, V.A. <b>Dependent director:</b> Zubakin, V.A.
23	Transaction (concluded agreement to lease real estate) between JSC RusHydro and JSC SO UES	Protocol №77 from JSC RusHydro's Board of Directors 18.05.2009	<b>Subject</b> Lease of uninhabited accommodation totalling 18.3 sq. meters located at the Gigulevskaya HPP <b>Price</b> RUR 2,081.29 per month including VAT, the agreement is valid till 31.01.2010 <b>Date</b> 04.06.2009	<b>Interested party:</b> Russian Federation <b>Dependent director:</b> Zubakin, V.A.
24	Transaction (concluded agreement for providing services for the start of operational staffing) between JSC RusHydro and JSC UK HidroOGK	Protocol №78 from JSC RusHydro's Board of Directors 08.06.2009	<b>Subject</b> Providing services, connected with providing services for the start of operational staffing for JSC RusHydro's objects for Q2-Q4 2009 <b>Price</b> RUR 6,119,124.82 per month including VAT, agreement valid till 31.12.2009 <b>Date</b> 13.07.2009	<b>Interested party:</b> Zubakin, V.A. <b>Dependent director:</b> Zubakin, V.A.
25	Transaction (concluded agreement for the dissolution of shared participation) between JSC RusHydro and JSC	Protocol №78 from JSC RusHydro's Board of Directors 08.06.2009	<b>Subject</b> Dissolution of the agreement for shared participation №16-	<b>Interested party:</b> Zubakin, V.A. <b>Dependent director:</b> Zubakin, V.A.

	Zaramagskaya HPP		1/15DY from 22.07.2003 <b>Price</b> Not provided <b>Date</b> 26.06.2009	
26	Transaction (concluded agreement) between JSC RusHydro's Board of Directors and a member of JSC RusHydro's Board of Directors, Ballo, A.B.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Ballu, A.B. <b>Dependent director:</b> Zubakin, V.A.
27	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Beloborodov, S.S.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Beloborodov, S.S. <b>Dependent director:</b> Zubakin, V.A.
28	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Surikov, O.V.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Surikov, O.V. <b>Dependent director:</b> Zubakin, V.A.
29	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Vainziher, B.F.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Vainziher, B.F. <b>Dependent director:</b> Zubakin, V.A.
30	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Volkov, E.P.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Volkov, E.P. <b>Dependent director:</b> Zubakin, V.A.
31	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Danilov-Danilyan, V.I.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Danilov-Danilyn, V.I. <b>Dependent director:</b> Zubakin, V.A.
32	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Maslov, S.V.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Maslov, S.V. <b>Dependent director:</b> Zubakin, V.A.
33	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Serebrynnikov, S.V.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Serebrynnikov, S.V. <b>Dependent director:</b> Zubakin, V.A.
34	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Tatsiy, V.V.	Protocol №81 from JSC RusHydro's Board of Directors	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors	<b>Interested party:</b> Tatsiy, V.V. <b>Dependent director:</b> Zubakin, V.A.

			<b>Date</b> 23.07.2009	
35	Transaction (concluded agreement) between JSC RusHydro and a member of JSC RusHydro's Board of Directors, Sharonov, A.V.	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Agreement with members of JSC RusHydro's Board of Directors <b>Date</b> 23.07.2009	<b>Interested party:</b> Sharonov, A.V. <b>Dependent director:</b> Zubakin, V.A.
36	Transaction, concluded agreement between JSC RusHydro, JSC Russian Railways and the Federal Railroad Transportation Agency	Protocol №81 from JSC RusHydro's Board of Directors 23.07.2009	<b>Subject</b> Signing a protocol based on investment agreement № 164D from 20.10.06 (measure for the reconstruction of railroad line Izvestkovaya-Chegdomin which falls under the zone of influence of the Bureyskaya HPP) <b>Price</b> JSC RusHydro's portion in the agreement is RUR 956,727,930 (1/6 portion) <b>Date</b> 04.08.2009	<b>Interested party:</b> Sharonov, A.V. <b>Dependent director:</b> Zubakin, V.A.
37	Transaction (concluded rental agreement ODU-500 kW Sayano-Shushenskaya industrial-technical hydro-energy complex) between JSC RusHydro and JSC FGC UES	Protocol №85 from JSC RusHydro's Board of Directors 02.10.2009	<b>Subject</b> Lease ODU-500 kW Sayano-Shushenskaya industrial-technical hydro-energy complex <b>Price</b> RUR 43,941,842.22 including VAT Time period – till 01.04.2010 <b>Date</b> 09.10.2009	<b>Interested parties:</b> Shmatko, S.I., Tatsiy, V.V. and Maslov, S.V. <b>Dependent directors:</b> Zubakin, V.A. and Khamitov, R.Z.
38	Transaction, concluded between JSC RusHydro and NP Hydro-power of Russia	Protocol №85 from JSC RusHydro's Board of Directors 02.10.2009	<b>Subject</b> Services for the development of standard methodology to develop technical regulations <b>Price</b> RUR 3,400,000 including VAT <b>Date</b> 05.10.2009	<b>Interested parties:</b> Khaziakhmetov, R.M. and Zubakin, V.A. <b>Dependent directors:</b> Zubakin, V.A. and ХАМИТОВ Р.З.
39	Transaction (conclusion of an agreement for note exchange) between JSC RusHydro and JSC SO UES	Protocol №85 from JSC RusHydro's Board of Directors 02.10.2009	<b>Subject</b> Exchange of notes with JSC SO UES <b>Price</b> RUR 706,161,372.72 – The cost of notes of JSC SO UES, which are the property of JSC RusHydro RUR 1,275,376.96 –	<b>Interested party:</b> Shmatko, S.I. <b>Dependent directors:</b> Zubakin, V.A. and Khamitov, R.Z.

			<p>The difference between the cost of adopted and transferred notes – JSC SO UES pays to the current account of JSC RusHydro</p> <p><b>Date</b> 29.10.2009</p>	
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*Additional information:*

1. During Q2 2009 (June), two transactions that would be classified as interested party transactions were completed between JSC RusHydro and the Russian Federation (in the person of the Federal Property Management Agency) to acquire additional shares of JSC RusHydro. These transactions were carried out within the framework of the realization of pre-emptive rights for additional share acquisitions. The total value of these transactions was RUR 4,923,866,100. In full accordance with item 2 of Article 81 of the Russian Federal law “On joint stock companies,” the indicated transactions did not require preliminary approval by the authorized control organ (the Board of Directors) of JSC RusHydro, due to the fact that these transactions were carried out while JSC RusHydro’s shareholders (the Russian Federation, in the person of the Federal Property Management Agency) were exercising their pre-emptive rights to acquire additional shares of JSC RusHydro;
  
2. During Q4 2009 (December), a transaction was completed that would be categorized as an interested party transaction between JSC RusHydro and the Russian Federation (in the person of both the Federal Property Management Agency and the Russian Energy Ministry) to acquire additional shares of JSC RusHydro. This transaction was carried out within the framework of the realization of pre-emptive rights for additional share acquisitions. The value of this transaction was RUR 4,329,999,999.65. In full accordance with item 2 of Article 81 of the Russian Federal Law “On joint stock companies,” the indicated transaction did not require preliminary approval by the authorized control organ (the Board of Directors) of JSC RusHydro, due to the fact that these transactions were carried out while JSC RusHydro’s shareholders (the Russian Federation, in the person of the Federal Property Management Agency) were exercising their pre-emptive rights to acquire additional shares of JSC RusHydro.

## XVIII. Glossary of key terms and abbreviations

<b>Company</b>	RusHydro, including its branches and representative offices.
<b>Holding company</b>	RusHydro, including its subsidiaries and dependent companies (SDCs).
<b>SDC</b>	<b>Subsidiaries and dependent companies</b> - entities, in which another (main) economic entity due to its majority or greater participation in the charter capital or in accordance with a concluded agreement or in another way, has the opportunity to determine decisions adopted by said entities.
<b>JSC «RAO UES of Russia»</b>	The Russian energy company until July 1st, 2008. Full name - Open joint stock company “Unified Energy System of Russia.” The Company previously united almost all of Russia’s energy sector under its umbrella. “UES” ceased to exist as of June 30th, 2008 due to comprehensive energy sector reform.
<b>OGK</b>	<b>Generating companies of the wholesale electricity market (WEM)</b> – companies formed on the basis of power plants.
<b>TGK</b>	<b>Territorial generating companies</b> – companies formed during the inter-regional integration of generating assets of JS C-energy (regional generating companies), except generating assets that are included in OGK(s).
<b>Concluding re-organization</b>	<p>The Company is considered to be re-organized, except in cases of re-organization in the form of merger(s), from the moment that the State registered newly formed legal entities.</p> <p>During the re-organization of the Company in the form of a merger, the first of the companies is considered to be re-organized from the moment of its inclusion in the State Register of legal entities of a record on the cessation of activity in the merged company.</p>
<b>IES</b>	<b>Integrated Energy System (IES)</b> – aggregated production and other electricity property assets, connected through a unified production process (including production in the form of the combined generation of electrical and thermal energy) and the supply of electrical energy under conditions of a centralized operating and dispatching management.
<b>HPP</b>	<b>Hydro-electric power plant</b> – the power plant as a unified production and technological complex, combining hydro-technical constructions and the equipment that transforms mechanical energy from water into electric energy.
	In the text of the annual report, except when otherwise noted, tidal power stations and PS HPP s are included as HPP s.
<b>PSH PP</b>	<b>Pump storage hydro-electric power plant</b> – pump-storage power plant, which works by transforming electricity from other power plants into the potential energy of water; during the reverse transformation, accumulated energy is contributed to the energy system primarily to cover deficits that may occur during peak load periods.
<b>HTC</b>	<b>Hydro-technical constructions</b> – dams, hydro-electric power plant constructions, spillways, drain and water-discharge constructions, tunnels, channels, pumping stations, navigation locks, boat lifts; buildings used to protect from flood and destruction of water reservoir shores; dam constructions, protecting liquid waste reservoirs of production and agricultural organizations; devices to protect against washing-away and

	other constructions designed for using water resources and preventing any negative impact from water and liquid waste.
<b>RES</b>	<b>Renewable energy sources</b> – examples include: hydro, solar, wind, geothermal, hydraulic energy, energy from water currents, waves, tides, the temperature gradient of sea water, temperature differences between air masses and the ocean, heat from the Earth , animal bio-masses, as well as vegetable and household waste.
<b>WPS</b>	<b>Wind-power stations</b> – equipment that is able to transform kinetic wind energy into electricity (wind-powered generators), located in one or more places. Large wind-power stations may consist of 100 or more wind-powered generators.
<b>FST</b>	Federal Service for Tariff (the Russian agency that sets and determines tariffs within the regulated segment of the power sector).
<b>ATS</b>	<b>Non-commercial partnership “Administrator of the trading system”</b> which was created in 2001 in accordance with Government Decree N526 “On the reform of the power sector in the Russian Federation. It focuses on organizing trade and financial payments in the wholesale energy market (WEM).
<b>WEM</b>	<b>Wholesale electricity market (capacity)</b> – sphere of turnover for electrical energy (capacity) within the framework of Russia’s integrated energy system within the country’s unified economic space with the participation of large electricity producers and consumers having the status of wholesale market objects, confirmed in full accordance with the Federal Law “On the electric power industry” (by the Government of the Russian Federation). The criterion for including large electricity producers and consumers in the category of large producers and large consumers are also established by the Russian government.
<b>NM WEM</b>	The new model of the wholesale electricity and capacity market foresees the transformation of the regulated sector of the wholesale market into a system of regulated agreements (RA s), concluded by participants in the wholesale market. Electricity and capacity will be sold under RAs. The volume of electricity not sold under RA s will be sold/purchased at free prices on the “day-ahead market” (at prices established as a result of the competitive choice of price applications and with free agreements, where prices are regulated by participants in the agreement(s)). At the same time, if the volume from the price application of purchases did not undergo competitive choice on the day-ahead market, the purchaser will have to buy respective volumes for consumption on the balancing market.
<b>RA</b>	<b>Regulated agreements</b> are concluded by participants in the wholesale market for a term of anywhere from 1 to 3 years. The prices in each of these agreements are tariffs for energy suppliers and capacity set by the Russian FST. The primary condition of the RA is “take or pay.” The supplier has to provide the agreed upon amount of electricity (capacity) and (only for electricity) buy in the market at competitive prices on either the day-ahead market or through a free bilateral agreement. The purchaser has to pay for the agreed upon amount independent of the amount of its own planned consumption.
<b>Regulated sector of the wholesale electricity market</b>	The portion of the wholesale electricity market, in which, wholesale trade of a portion of the volume of electricity and capacity are sold at tariffs approved by the Russian Federation federal executive organs on the regulation of natural monopolies in an order set by the Federal Law “On the state regulation of electricity and thermal energy tariffs in the Russian

	Federation.”
<b>Free trade sector</b>	The sector, in which, the wholesale trade of a portion of produced electricity is concluded and executed in the form of buying and selling contracts and in the form of price bids from buyers and sellers at free (unregulated) prices.
<b>DAM</b>	<b>Day-ahead market</b> – the system of competitively determining the price for suppliers and purchasers on the wholesale electricity market a day ahead of real energy supply, defining hourly equilibrium key prices and supply volumes, conducted by the non-commercial partnership “ATS.” The day-ahead market defines full production and consumption volumes for electricity at each hour of the following day.
<b>BM</b>	<b>Balancing market</b> – the wholesale electricity market, where trade(s) of electricity volumes that deviate from plans are performed; this deviation is a result of differences between actual and planned volumes of supply/consumption.
<b>Installed capacity</b>	Total nominal active capacity of generators at electric power plants which are part of the Group’s structure.
<b>MW</b>	<b>Megawatt</b> – a unit of measure for electrical capacity
<b>kWh</b>	<b>Kilowatt-Hour</b> – a unit of measure for produced electricity