



JSC RusHydro

Admission to Listing on the Official List and to Trading on the London Stock Exchange of Global Depositary Receipts and American Depositary Receipts

This Prospectus relates to an admission to listing on the official list (the “Official List”) of the U.K. Listing Authority (“UKLA”), a division of the U.K. Financial Services Authority (the “FSA”), in its capacity as competent authority under the Financial Services and Markets Act 2000 (“FSMA”) and to trading on the regulated part of the International Order Book (“IOB”) of the London Stock Exchange plc (the “London Stock Exchange”), a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the “Regulated Market”) of (a) global depositary receipts (“GDRs”), with one GDR representing one hundred registered ordinary shares of JSC RusHydro (“RusHydro” or “the Company”) with a par value of 1 rouble each (each a “Share” and, together, the “Shares”) and (b) American depositary receipts (“ADRs” and, together with the GDRs, the “DRs”), with one ADR representing one hundred Shares. This Prospectus does not constitute an offer of the GDRs or the ADRs in any jurisdiction.

Initial Listing Application

RusHydro has applied (i) to the UKLA for a listing of up to 1,000,000,000 DRs, consisting of 143,896,790 GDRs outstanding on or about the date of this Prospectus, and up to 856,103,210 additional DRs, in the form of GDRs or ADRs, to be issued from time to time against the deposit of Shares with the Depositary under the relevant Deposit Agreement (each as defined below), to be admitted to the Official List; and (ii) to the London Stock Exchange for the DRs to be admitted to trading on the Regulated Market. RusHydro expects that admission of the DRs to the Official List and to trading on the Regulated Market will become effective on 6 July 2009.

ADR Exchange and Second Listing Application

RusHydro signed a Level 1 ADR deposit agreement on 30 June 2009 with The Bank of New York Mellon, as Depositary (the “ADR Deposit Agreement”) under which ADRs may be issued from time to time. The Depositary has applied to the U.S. Securities and Exchange Commission (the “SEC”) for the Level 1 ADR programme contemplated by the ADR Deposit Agreement (the “ADR Programme”) to be declared effective. If the SEC declares the ADR Programme effective:

- (a) RusHydro will apply (i) to the UKLA for the number of ADRs outstanding at the time of the Exchange to be admitted to the Official List; (ii) to the London Stock Exchange for those ADRs to be admitted to trading on the Regulated Market;
- (b) immediately prior to admission of the ADRs to the Official List and to trading on the Regulated Market, the Depositary will issue to each holder of Regulation S GDRs (as defined below) ADRs in an amount equal to the number of Regulation S GDRs held by the relevant holder as at the date of issuance of the ADRs, and such Regulation S GDRs shall be immediately cancelled upon such issuance of ADRs (the “Exchange”); and
- (c) RusHydro will request that the UKLA and the London Stock Exchange cancel (i) the listing of the Regulation S GDRs on the Official List and (ii) their admission to trading on the Regulated Market, respectively.

RusHydro currently expects that the ADRs will be issued on or around 11 August 2009. See “The ADR Exchange”. **There can be no assurance that the SEC will declare the ADR Programme effective or that any ADRs will be issued to holders of Regulation S GDRs. Moreover, in the event that ADRs are issued, there is no assurance that RusHydro’s application to admit those ADRs to the Official List and to trading on the Regulated Market will be approved by the UKLA and London Stock Exchange, respectively.**

The Shares

The Shares are listed and traded on the “A1” list of the Russian Trading System Stock Exchange (“RTS”) and the Moscow Interbank Currency Exchange (“MICEX”) in Russia under the symbol “HYDR”. The ISIN for the Shares is RU000A0JPKH7. The trading price of the Shares on the RTS and MICEX will not necessarily relate to the trading price of the DRs on the London Stock Exchange.

Risk Factors

Investment in the DRs involves a high degree of risk. For a discussion of certain risk factors that should be considered in connection with an investment in the DRs, see “Risk Factors”. The DRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The GDRs

The GDRs are issued pursuant to an agreement, dated 14 April 2008, between RusHydro and The Bank of New York (now known as The Bank of New York Mellon), as Depositary (the “GDR Deposit Agreement” and, together with the ADR Deposit Agreement, each a “Deposit Agreement” and, collectively, the “Deposit Agreements”) and comprise (i) a tranche issued in the United States to qualified institutional buyers (“QIBs”), as defined in and in reliance on the exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), as provided by Rule 144A under the U.S. Securities Act (“Rule 144A”) (the “Rule 144A GDRs”) and (ii) a tranche issued outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”) (the “Regulation S GDRs”). See “Terms and Conditions of the Global Depositary Receipts”. For the Rule 144A GDRs, the ISIN is US44880R1032 and the CUSIP is 44880R103. For the Regulation S GDRs, the ISIN is US44880R2022 and the CUSIP is 44880R202.

The GDRs are currently in global form and are evidenced by a Master Rule 144A GDR (in respect to the Rule 144A GDRs) registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), and, in respect of the Regulation S GDRs, a Master Regulation S GDR (which, together with the Master Rule 144A GDR, are referred to as the “Master GDRs”), registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”).

The ADRs

The ADRs will retain the ISIN, CUSIP number and London Stock Exchange trading symbol that are currently assigned to the Regulation S GDRs. See “Terms and Conditions of the American Depositary Receipts”.

Dated 1 July 2009

Neporozhniy Sayano-Shushenskaya HPP



Zagorskaya PSHP



IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus, including the financial information and the appendices included therein, comprises a prospectus given in compliance with the Prospectus Rules made under Section 73A of FSMA by the UKLA for the purpose of giving information with regard to RusHydro and its subsidiaries (together, the “Group”) and the DRs in connection with the application for admission of the DRs to the Official List and to trading on the Regulated Market.

RusHydro accepts responsibility for the information contained in this Prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the knowledge of RusHydro, in accordance with the facts and contains no omission likely to affect its import.

This Prospectus does not constitute an offer for sale of DRs in any jurisdiction. Investors in DRs must rely on their own examination of the Group, including the merits and risks involved. Investors in DRs should rely only on the information contained in this Prospectus. RusHydro has not authorised any other person to provide any investors in DRs with information regarding the DRs, other than the information contained herein. If anyone provides any investor in DRs with different or inconsistent information, such investor in DRs should not rely on it. Each investor in DRs should assume that the information appearing in this Prospectus is accurate as at the date on the front cover of this Prospectus only. The business, financial condition, results of operations and the information about the Group set forth in this Prospectus may have changed since that date.

Investors in DRs should not consider any information in this Prospectus to be investment, legal or tax advice. Each investor in DRs should consult its own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the DRs.

RusHydro obtained the market data used in this Prospectus under the headings “Summary”, “Risk Factors”, “Business”, “Operating and Financial Review” and “Industry Overview” from internal surveys, industry sources and currently available public information. The main sources for information on the industry in which the Group operates were (i) the Group; (ii) the Ministry of Energy of the Russian Federation (“Minenergo”); (iii) OJSC System Operator of the Unified Energy System (the “System Operator”) and (iv) the Federal State Statistical Service of the Russian Federation (“Rosstat”). RusHydro also obtained macroeconomic and foreign exchange data relating to Russia from the Central Bank of Russia (the “CBR”) and the Ministry for Economic Development of the Russian Federation (the “MED”).

RusHydro accepts responsibility for having correctly reproduced information obtained from industry publications or public sources, and, as far as RusHydro is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, investors should keep in mind that RusHydro has not independently verified information which it has obtained from third party sources, including from industry and Russian government bodies. Certain market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of RusHydro based upon information obtained from trade and business organisations and associations and other contacts within the energy industry. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

The contents of the Group’s websites do not form part of this Prospectus.

This Prospectus does not constitute an invitation to subscribe for or otherwise acquire or dispose of any DRs. This Prospectus is not for publication or distribution, directly or indirectly, in or into any jurisdiction in which the same would be unlawful. This Prospectus is for information purposes only and does not constitute an offer or invitation to acquire or dispose of DRs in the United States or any other jurisdiction. Neither the Shares nor the DRs have been nor will be registered under the U.S. Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. RusHydro does not currently plan to register or make a public offering of the Shares or the DRs in the United States. The distribution of this Prospectus may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required to inform themselves about, and to observe, any such restrictions. No action has been taken by

RusHydro that would permit an offering of the DRs or the possession or distribution of this Prospectus or any other offering or publicity material relating to the DRs in any jurisdiction where action for that purpose is required.

The DRs have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Notice to Investors in the U.K. and EEA

This Prospectus is being made available only to persons in member states of the European Economic Area (“EEA”) who are “qualified investors” within the meaning of Article 2(1)(e) of Directive 2003/71/EC (“Qualified Investors”). In addition, in the United Kingdom, this Prospectus is being made available only to Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. The DRs are only available to, and any investment or investment activity to which this Prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and RusHydro will only engage with such persons in relation to the DRs.

Notice to Investors in the Russian Federation

This Prospectus should not be considered as a public offer or advertisement of the DRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any of the DRs in the Russian Federation. Neither the DRs nor any prospectus or other document relating to them have been registered with the Federal Service for Financial Markets of the Russian Federation (the “FSFM”) and are not intended for “placement” or “public circulation” in the Russian Federation. Any information on the DRs in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation.

Currencies and Exchange Rates

In this Prospectus, references to “U.S. dollars” or “USD” are to the currency of the United States and references to “roubles” or “RUB” are to the currency of the Russian Federation.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of the combined and consolidated financial statements as at and for the three years ended 31 December 2008 of the Group and other financial information appearing in this Prospectus.

For each year from 2006 to 2008	Roubles per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period end
2006	28.48	26.18	27.19	26.33
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.86	29.38

1. The average of the exchange rate for the relevant period, based on the rates in such period for each Russian business day (quoted by the CBR for that day) and each Russian non-business day (which is equal to the rate quoted by the CBR for the preceding Russian business day).

For each month from January 2009 to June 2009	Roubles per U.S. dollar	
	High	Low
January	35.41	29.39
February	36.43	34.56
March	36.23	33.20
April.....	34.10	33.17
May.....	32.97	30.98
June.....	31.58	30.51

The exchange rate between the rouble and the U.S. dollar on 1 July 2009 as published by the CBR was RUB 31.04 per USD 1.00.

No representation is made that the rouble or U.S. dollar amounts in this Prospectus could have been converted into U.S. dollars or roubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Limitation on Enforcement of Civil Liabilities

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. There is no treaty between either the United Kingdom or the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Deposit Agreements provide for actions brought against RusHydro under such agreements to be settled by arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the relative inexperience of Russian courts in enforcing international arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors;
- legal grounds (for example, the concept of “public order”) and/or technical grounds (for example, the lack of capacity of the parties or the invalidity of an arbitral clause); and
- the Russian courts’ inability or unwillingness to enforce such orders.

All of the Directors of RusHydro and members of the management board of RusHydro named in this Prospectus reside outside the United Kingdom and the United States. A substantial portion of those Directors’ and managers’ assets are located outside the United Kingdom and the United States, principally in the Russian Federation. Accordingly, it may not be possible for DR holders to:

- effect service of process within the United Kingdom or the United States upon the Directors and members of the management board of RusHydro named in this Prospectus; or
- enforce, in the United Kingdom or the United States, court judgments obtained in courts of the United Kingdom or the United States, as the case may be, against RusHydro or the Directors and members of the management board of RusHydro named in this Prospectus in any action, including actions under the civil liability provisions of the laws of the United Kingdom or federal securities laws of the United States.

In addition, it may be difficult for DR holders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or the United States, liabilities predicated upon U.K. or U.S. securities laws.

For a further description of the risks relating to the ability of DR holders to enforce court judgments against RusHydro or any of the Directors and members of the management board of RusHydro, see “Risk Factors – Risks relating to the DRs and the trading market – DR holders may have limited recourse against RusHydro and the Directors and senior management of RusHydro because RusHydro generally conducts its operations outside the United Kingdom and the United States and all of the current Directors and all senior management of RusHydro reside outside the United Kingdom and the United States”.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the DRs should be based on a consideration of this Prospectus as a whole.

Following the implementation of the relevant provisions of Directive 2003/71/EC in each member state of the EEA, no civil liability will attach to RusHydro or the Directors in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff investor may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Each investor in DRs should carefully consider the information set forth under the heading “Risk Factors – Forward-Looking Statements”, “Operating and Financial Review” and the combined and consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

The Business of the Group

RusHydro believes that it is the biggest power generation company in Russia and the biggest publicly traded hydro generation company in the world in terms of installed capacity. As at 31 December 2008, the aggregate total installed capacity of the Group was 25,336.6 MW, which constituted approximately 12% of the total installed electricity generation capacity in Russia. The Group's core businesses are the generation of electricity and the sale of electricity and capacity on the Russian wholesale electricity market, as well as the retail market. The Group generated 80,273 million kWh of electric power and revenues of RUB 107.7 billion in 2008.

The Group's generation facilities are located in six of the seven Russian integrated energy systems (“IESs”) across the entire territory of the Russian Federation. They include 50 HPPs (including Neporozhniy Sayano-Shushenskaya HPP which, with an installed capacity of 6,400 MW, is currently the largest hydro power plant in Russia in terms of installed capacity), 2 pumped storage hydro power plants, 2 geothermal power plants and 1 wind power plant. The Group sells its electricity and capacity on the wholesale electricity market and, through its electricity retail companies, on the retail electricity market. See “Industry Overview – Overview of the Electricity Market – Wholesale Electricity (Capacity) Market” and “Industry Overview – Overview of the Electricity Market – Retail Electricity Market”. RusHydro's headquarters are in Moscow, Russia.

RusHydro is currently implementing nine investment projects and undertaking the technical upgrade and modernisation of its hydro generation facilities. As a result of these projects, RusHydro expects the installed electricity capacity of the Group to increase by approximately 1,928 MW by 2012. The Group further expects that the completion of these projects will create a further 3,064 MW of new installed capacity by 2015, although RusHydro has not yet taken a decision on the sources of funding for expenditure on these projects for periods after 2011.

RusHydro's investment programme also contemplates the construction of further three power generation facilities in the period 2012-2022 with a designed installed capacity of up to 1,490 MW. The construction of these facilities will depend, among other things, on RusHydro being able to attract financing on commercially acceptable terms. The Group's investment programme also contemplates the construction of a tidal power plant, a wind power plant and a geothermal power plant in the period 2012-2013, with a designed installed capacity of 12 MW, 30 MW and 12 MW, respectively, subject to the Government providing financing for these projects. See “Expansion Plans and Projects”.

In addition to the generation and the wholesale sales of electricity and capacity, the Group is also engaged in the retail sales of electricity and capacity through the three electricity retail companies located in the Ryazan Region, the Krasnoyarsk Region and the Republic of Chuvashiya, respectively, that it acquired in 2008 and subsequently consolidated into OJSC RusHydro Energy Retail Company. RusHydro believes that the retail market is more stable and less competitive compared to the wholesale market, although the margins in the retail market have historically been considerably less than the margins in the wholesale market.

Competitive Strengths

RusHydro believes that it has a number of principal strengths that distinguish it from its competitors:

- Ecologically clean power generation;
- The flexibility to increase output;
- The absence of a fuel component in production costs;
- The long useful life of hydro power plants (“HPPs”); and
- Generation and retail business synergy.

Strategy

RusHydro’s strategic goals are as follows:

- to promote growth in the value and capitalisation of RusHydro;
- to help ensure the reliability and safety of the Russian energy system; and
- to develop sustained growth in the production of electric power on the basis of renewable energy sources.

Summary Combined and Consolidated Historical Financial Data

The table below shows certain summary historical combined and consolidated financial data of the Group as at and for the three years ended 31 December 2006, 2007 and 2008 prepared in accordance with International Financial Reporting Standards (“IFRS”). This financial information has been derived from the audited combined and consolidated financial statements of the Group included in this Prospectus. As a result of the short operating history of the Group in its current form and the significant changes that have occurred since 2006 in the wholesale and retail electricity markets in which the Group operates, a comparative analysis of the financial reporting periods in the combined and consolidated financial statements may not provide an accurate comparison of financial results or a true indication of trends in the Group’s business.

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions, except earnings/loss) per share)</i>		
Combined and consolidated income statement data			
Revenue	53,436.3	80,756.5	107,669.8
Operating expenses	(53,318.2)	(70,392.0)	(84,658.2)
Impairment reversal/(charge) related to property, plant and equipment	14,971.4	—	(32,552.8)
Operating profit/(loss)	15,089.5	10,364.5	(9,541.3)
Finance costs, net	(816.2)	(1,824.8)	(1,494.8)
Impairment of available-for-sale financial assets.....	—	—	(6,464.3)
Share of loss of associates and jointly controlled entities	—	(119.3)	(1,531.3)
Profit/(loss) before income tax.....	14,273.3	8,420.4	(19,031.7)
Total income tax charge	(6,649.6)	(2,949.4)	(448.6)
Profit/(loss) for the year	7,623.7	5,471.0	(19,480.3)
Attributable to:			
Shareholders of RusHydro	6,034.4	5,663.0	(19,955.4)
Minority interest	1,589.3	(192.0)	475.1
Earnings/(loss) per ordinary share for profit attributable to the shareholders of RusHydro – basic and diluted (in RUB)	0.0487	0.0381	(0.0925)

	Year ended 31 December		
	2006	2007	2008
	(amounts in RUB millions)		
Combined and consolidated cash flow data			
Net cash (used in)/generated by operating activities	(6,215.4)	17,034.3	27,620.7
Net cash used in investing activities	(21,379.3)	(35,883.0)	(33,022.6)
Net cash generated by financing activities.....	32,214.3	20,511.2	21,973.0
Increase in cash and cash equivalents	4,619.6	1,662.4	16,571.1
	As at 31 December		
	2006	2007	2008
	(amounts in RUB millions)		
Combined and consolidated balance sheet data			
Cash and cash equivalents.....	6,604.3	8,266.7	24,837.9
Total assets	169,006.3	313,546.4	426,371.1
Non-current debt	16,396.8	20,839.1	20,015.5
Current debt and current portion of non-current debt	5,186.2	3,178.0	3,376.9
Total liabilities.....	42,863.8	75,366.4	82,758.9
Total equity	126,142.5	238,179.9	343,612.2
Risk Factors			
An investment in the DRs is subject to risks relating to the Group's business and industry, economic, political, social and legal risks associated with Russia, as well as risks arising from the nature of the DRs and the markets upon which they are expected to be traded, including risks associated with the following matters: • Reform of the Russian power industry is associated with a number of risks that may materially adversely affect the Group. • The proposed liberalisation of wholesale electricity prices may be suspended or reversed, and existing and future tariff regulations applicable to the Russian power industry may result in a tariff system that inadequately compensates the Group for its cost base. • The capacity market in Russia may not operate in a manner that allows Russian power generation companies to receive adequate returns on their investments. • The price of the DRs may be affected by the general perception of the Russian power sector. • RusHydro has been involved in many complex corporate reorganisations which may be subject to challenge. • The demand for electricity in Russia may not increase at the same rate or by the same volume as the Government assumed for the purposes of the formulation of its capital expenditure plans for the power sector, which may result in a lower load factor for the existing and newly commissioned capacity of Russian power companies, overcapacity in the market or lower sales prices. • RusHydro is relying to a great extent on a third party, United Company Rusal, in the implementation of its largest investment project. • Customers may delay or fail to make payments to the Group for the electricity supplied by it. • The Group is dependent upon the services provided by, and the assets and infrastructure of, third parties. • Any shortcomings in the Group's accounting systems and internal controls could have a material adverse effect on its business, financial condition and results of operations. • The interests of the Russian Federation as the principal shareholder of RusHydro could conflict with those of other shareholders in RusHydro. • The Group's plant and equipment is in many cases not in optimal condition, and it is to a large extent susceptible to natural disasters, technical failures or emergencies, increased maintenance costs and reduced reliability and efficiency.			

- The Group may require significant capital investment.
- The Group may not be able to complete its investment programmes on time, on budget or at all or to realise expected returns on its investments.
- The electricity output of the Group depends significantly on the waterflow in the river systems where it operates as well as on the operating regimes of water reservoirs established by the Federal Agency on Water Resources, and, moreover, any substantial increase in payments for water use could adversely affect the Group's financial condition.
- The Group must observe certain financial and other restrictive covenants under the terms of its indebtedness. The failure to comply with such covenants could put the Group into default.
- Investments in businesses operating in emerging markets are generally subject to greater risks than those operating in more developed markets.
- Weaknesses relating to the Russian legal system create an uncertain environment for investment and business activity.
- Corporate governance standards in Russia are less developed than those in western Europe or the United States, and there is only limited protection of minority shareholders in Russia.
- Economic instability in the Russian Federation could adversely affect the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.
- Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers. The Group therefore may be subject to greater than expected tax burdens that could materially adversely affect the Group's business and results of operations.
- Because the Depositary may be considered the owner of the Shares represented by the DRs, such Shares may be seized or arrested in legal proceedings in Russia against the Depositary, and the Depositary may be subject to various requirements of Russian law.
- Voting rights with respect to the Shares represented by the DRs are limited by the terms of the relevant Deposit Agreements and the relevant requirements of Russian law.
- There may only be a limited trading market for the DRs, and, as a result, the price of the DRs may be highly volatile.
- There are limits on the number of Shares that may be deposited in the GDR Programme or the ADR Programme.
- RusHydro may issue additional shares resulting in the dilution of Shares held by existing shareholders.
- DR holders may have limited recourse against RusHydro and the Directors and senior management of RusHydro because RusHydro generally conducts its operations outside the United Kingdom and the United States and all of the current Directors and all senior management of RusHydro reside outside the United Kingdom and the United States.

The foregoing is not a comprehensive list of the risks to which the Group or the DRs may be subject.

Regulatory Matters

The Group's business operations are subject to regulation by Russian authorities on a number of matters, including licensing, industrial safety, environmental protection, employee health and safety and competition.

Management of the Group

The Directors and management team have substantial experience in the electricity industry and related financing activities, and have an established track record of successfully managing the Group and its predecessor companies. The Board of Directors of RusHydro currently consists of thirteen members, of whom RusHydro considers three of the current Directors, Sergei Serebryannikov, Oleg Surikov and Viktor Danilov-Danilyan, to be independent Directors in accordance with the U.K. Combined Code on Corporate Governance. RusHydro considers an additional two Directors,

Vladimir Tatsiy and Boris Vainzikher, to be independent Directors based purely on the independence criteria established by the FSFM with respect to Russian listed companies. These criteria differ in certain respects from western European or U.S. standards, including the U.K. Combined Code on Corporate Governance.

Share Capital

As at the date of this Prospectus, RusHydro's share capital consisted of 255,014,018,667 Shares, all of which are fully paid, issued and outstanding.

The GDRs and ADRs

The GDRs are issued pursuant to an agreement, dated 14 April 2008, between RusHydro and The Bank of New York (now known as The Bank of New York Mellon), as Depositary, and comprise Rule 144A GDRs and Regulation S GDRs, with each GDR representing 100 Shares of RusHydro. RusHydro expects that admission of the GDRs to the Official List and to trading on the Regulated Market will become effective on 6 July 2009.

It is expected that the ADRs will be issued pursuant to an agreement, dated 30 June 2009, between RusHydro and The Bank of New York Mellon, as Depositary, with each ADR representing 100 Shares of RusHydro. The Depositary has applied to the SEC for the ADR Programme to be declared effective. RusHydro currently expects that the ADR programme will be declared effective on or around 15 July 2009, although there can be no assurance that the SEC will declare the ADR Programme effective or that any ADRs will be issued. If the SEC declares the ADR Programme effective:

- (a) RusHydro will apply (i) to the UKLA for the number of ADRs outstanding at the time of the Exchange to be admitted to the Official List; (ii) to the London Stock Exchange for those ADRs to be admitted to trading on the Regulated Market;
- (b) immediately prior to admission of the ADRs to the Official List and to trading on the Regulated Market, the Depositary will issue to each holder of Regulation S GDRs ADRs in an amount equal to the number of Regulation S GDRs held by the relevant holder as at the date of issuance of the ADRs, and such Regulation S GDRs shall be immediately cancelled upon such issuance of ADRs; and
- (c) RusHydro will request that the UKLA and the London Stock Exchange cancel (i) the listing of the Regulation S GDRs on the Official List and (ii) their admission to trading on the Regulated Market, respectively.

RusHydro currently expects that the ADRs will be issued on or around 11 August 2009 and that admission will occur on the same day. See "The ADR Exchange".

RISK FACTORS

Holders of DRs should carefully consider the following information about the risks described below, together with the other information contained in this Prospectus. If any of the adverse consequences of the risks described below actually occurs, the Group's business, financial condition, results of operations or prospects could be adversely affected. In that case, the value and trading price of the DRs may decline and DR holders could lose all or part of their investment.

RusHydro has described below the risks and uncertainties that the management of RusHydro believes to be material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those of which RusHydro is currently unaware or which RusHydro deems immaterial at present, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value and trading price of the DRs and DR holders losing all or part of their investment.

Various statements in this Prospectus, including the following risk factors, contain forward-looking statements. See "Risk Factors – Forward-looking statements".

RISKS RELATING TO THE REFORM OF THE RUSSIAN POWER INDUSTRY

Reform of the Russian power industry is associated with a number of risks that may materially adversely affect the Group.

The Russian power industry has undergone substantial reform and restructuring since 2001. This reform and restructuring aims to achieve, among other things, changes in the regulatory framework of the power industry, the development of competitive electricity and electricity capacity markets, and the gradual expansion of those competitive markets, with the goal of reducing the percentage of output subject to regulated prices, or tariffs.

It is envisaged that reform of the power industry will result in the development of a fully liberalised market, except in the Far East region, for electricity generation, electricity capacity and retail sales and related services by 2011, at which point wholesale electricity and capacity prices are intended to be established on the basis of supply and demand. This process of restructuring and liberalisation does not, however, extend to residential consumption, which remains subject to regulated tariffs, nor does it currently contemplate the creation of a free market for transmission, distribution, dispatch or certain sales activities. The reform has also led to the breaking up of Open Joint-Stock Company Unified Energy System of Russia ("RAO UESR"), previously the largest state controlled power holding company, and certain other power companies into the following separate businesses: electricity generation, transmission and distribution, the sale of electricity to retail customers and repairs and servicing. Generation, sales and repair companies now engage in competition with each other.

As part of the reform process, the rules governing the Russian power market, including the rules related to market liberalisation, the determination of tariffs for electricity, the operation of the capacity market and the framework for relations between power generators and consumers, are undergoing significant change. See "Industry Overview – Sector Reform". In addition, as a result of the power sector restructuring, RAO UESR, which enjoyed a dominant position in terms of knowledge, expertise, experience and management skills relating to the power sector, ceased to exist on 1 July 2008. Although this was in line with the goals of the reform programme aimed at creating a competitive market, the absence of RAO UESR may create uncertainties in the market.

The timing of the stages of the reform process and the scope of these stages have changed several times since the formal launch of the reform programme in July 2001, and it is possible that the current plan of the Government to fully liberalise the non-residential electricity and capacity markets by 2011 may not be implemented within this timeframe or achieve all of its objectives.

As a result of the reform process and the uncertainty associated with its completion and ultimate scope, the Russian power market has changed significantly and continues to operate in conditions of relative uncertainty. The Group may, therefore, be subject to a large number of operational, business, technical, managerial, regulatory and other risks, which are currently difficult or impossible to predict and which are not within its control, in addition to the existing risks inherent in the Russian power market. These changes and the associated uncertainty may have a material adverse effect on the business, revenues, financial condition, results of operations, prospects of the Group or the trading price of the DRs.

The proposed liberalisation of wholesale electricity prices may be suspended or reversed, and existing and future tariff regulations applicable to the Russian power industry may result in a tariff system that inadequately compensates the Group for its cost base, which could materially adversely affect the business, financial condition and results of operations of the Group.

The sale (both wholesale and retail), transmission and distribution of electricity in Russia are currently to a large extent subject to tariff regulations. The Group is currently, and at least until 2011 is expected to continue to be, required to sell a substantial part of its electricity output and capacity at regulated prices, or tariffs, under so-called regulated contracts ("Regulated Contracts"). Under the existing tariff regime, tariffs charged by the Group are revised annually by the Russian Federal Tariff Service (the "FST") in the case of wholesale electricity and capacity tariffs, and by regional tariff authorities in the case of retail electricity.

Since 2008, the 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 Accounting Standards that were used in the "cost-plus" tariffs for 2007, which is considered the reference year for the purposes of the indexation method. For the purposes of the indexation formulae, the FST is required to use the forecasts of the MED for such purposes, and it is possible that such forecasts will not accurately reflect prevailing market conditions or actual cost increases. Since these tariffs are adjusted only annually and are based on forecasts, they may not reflect actual cost increases, including the fluctuations of costs during the year, for example, as a result of unexpected changes in the water level, which may lead to costs exceeding tariffs in certain periods within a year. As a result, tariffs may not adequately compensate for the costs of the Group or may not allow for an adequate return on the Group's investments. To the extent that tariffs do not increase in line with the Group's actual costs, including its investment costs, its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

The framework for gradual wholesale electricity market liberalisation was established by new rules for the wholesale electricity market that were adopted by the Russian Federation in 2006 and amended in 2007 (the "New Wholesale Market Rules"). The New Wholesale Market Rules provide that power generators, including RusHydro, are required to sell, in the second half of 2009, 45-50% of their power output, as determined in the 2007 output plan approved by the FST, under Regulated Contracts at regulated prices. Only the remaining 50-55% of such planned output, together with any volumes generated above the 2007 annual planned output, may be sold at free-market prices in the "one-day-ahead" spot market, in the balancing market or under unregulated agreements at prices freely chosen by the parties. The New Wholesale Market Rules also provide that the Government will further liberalise the wholesale electricity market by semi-annually reducing the percentage of planned output that must be sold at regulated prices. Under the New Wholesale Market Rules, these semi-annual reductions are to be set within the range of 10-20% of the planned output for each power generation company, with full liberalisation, except for residential consumers, expected to occur in 2011. While the volumes approved for sale at free-market prices have been increased in accordance with the New Wholesale Market Rules, there can be no assurance that the price liberalisation will actually continue. Moreover, no assurances can be made that the existing regulations will remain in place or that price liberalisation will not be suspended or reversed in the future. If price liberalisation is suspended or reversed, or does not proceed as currently envisioned, this could have a material adverse effect on the business, revenues, financial condition, results of operations, prospects of the Group or the trading price of the DRs.

In addition, the New Wholesale Market Rules do not currently contemplate the liberalisation of electricity and capacity prices in the Far East region of the Russian Federation, and the Government has not announced any firm plans to do so. It is likely that electricity and capacity prices in the Far East will not be liberalised until the related grid infrastructure has been sufficiently developed to create a competitive market in that region. Until that time, the Group will be required to sell electricity and capacity produced by its generation facilities in the Far East, including Bureyskaya HPP, Zeyskaya HPP and Kolymenskaya HPP, at regulated prices.

Furthermore, should the process of power market liberalisation continue, price levels in the free market for power will have a direct impact on the revenues and profitability of the Group. Since a liberalised electricity market is relatively new to Russia, it is difficult to predict future price levels for

electricity, and there is no guarantee that such price levels will increase as a result of greater market liberalisation. For example, in the periods of extremely low demand some HPPs of the Group may even be required to sell their output at free-market prices as low as zero in order to avoid shutdown costs. If free-market prices for power are not sufficient to cover the costs and expenses of the Group, its business, revenues or results of operations or the trading price of the DRs may be materially adversely affected.

The capacity market in Russia may not operate in a manner that allows Russian power generation companies to receive adequate returns on their investments.

Under the New Wholesale Market Rules, electricity capacity and electricity are treated as separate economic products in the Russian electricity market. Since 2008, capacity has been sold under Regulated Contracts as well as under unregulated contracts. The New Wholesale Market Rules stipulate that both new electricity capacity commissioned after 2007, and the electricity capacity that existed before 2008 and which is not covered by Regulated Contracts, are to be sold in the wholesale market at unregulated prices. The New Wholesale Market Rules provide that only those power generation companies that win a competitive bid can be reassured of having purchasers for its capacity. In this competitive bidding process, a company cannot tender a price for pre-2008 capacity that is higher than the actual capacity tariff. See “Industry Overview – Overview of the Electricity Market – Electricity capacity market”.

It is not yet clear how the capacity market will operate from 2011. The relevant rules are currently being formulated, but the current proposals suggest a significant change in the pricing mechanism for the capacity market. If the electricity capacity market does not develop, or if its rules fail to enable the Group to receive adequate returns on its investments in new electricity generation capacity, the Group’s business, revenues, financial condition, results of operations, prospects, or the trading price of the DRs, may be materially adversely affected.

The price of the DRs may be affected by the general perception of the Russian power sector.

Certain circumstances, such as political changes in Russia and tensions in Russia’s political and commercial relations with other countries, as well as the uncertainties and risks associated with the reform of the Russian power industry, could adversely affect investors’ general perception of the Russian power sector and the security prices of companies within this sector. The effect of such events on investor sentiment and on the market price of the DRs cannot be predicted, but it is possible that the price of the DRs could fluctuate or fall significantly as a result of negative investor sentiment.

RISKS ASSOCIATED WITH THE GROUP AND ITS OPERATIONS

RusHydro has been involved in many complex corporate reorganisations which may be subject to challenge.

RusHydro has participated in a number of corporate reorganisations within the general framework of the Russian power sector reform, including the merger into RusHydro of 24 companies, most of which were subsidiaries of RusHydro, in 2008, and the final de-merger of RAO UESR which resulted in the dissolution of RAO UESR and distribution of its assets and obligations among the subsidiaries of RAO UESR, one of which was RusHydro. See “Business – History and Development”. Many of the 24 companies that merged into RusHydro in 2008 were also created as a result of various corporate reorganisations.

Many of these transactions, particularly the final de-merger of RAO UESR, were very complex and in many cases relied on newly adopted regulations which were not widely tested in practice and, therefore, were subject to varying interpretation. Many decisions and corporate actions that were required for the reorganisations were taken by RAO UESR and other parties to the reorganisations, and, as a result, the RusHydro’s management had only limited ability to influence the reorganisations. The uncertainties in connection with the reorganisations may have related to, among other matters, the approvals of the reorganisations and related transactions, the determination of exchange ratios for share distributions, the determination of the redemption price for dissenting shareholders and the issuance and distribution of shares in the reorganisations. There can be no assurance that governmental authorities or minority shareholders of RusHydro or of other companies that participated in the reorganisations will not challenge any of these reorganisations. Should any such challenge be successful, the composition of the Group, and the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs, may be materially adversely affected.

In addition, in accordance with Russian law, RusHydro may be liable for the liabilities of the companies whose assets RusHydro received as a result of corporate reorganisations, including RAO UESR. RusHydro would bear these liabilities if it clearly assumed them under the terms and conditions of reorganisation, and, moreover, there is a risk that RusHydro may be forced to bear liabilities that were not mentioned in the terms and conditions of the reorganisation, even if RusHydro was unaware of those liabilities. Should RusHydro be liable for the liabilities of its predecessor companies, the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

The demand for electricity in Russia may not increase at the same rate or by the same volume as the Government assumed for the purposes of the formulation of capital expenditure plans for the power sector, which may result in a lower load factor for the existing and newly commissioned capacity of Russian power companies, overcapacity in the market or lower sales prices.

The Group's current investment programme is generally based on forecasts of growth in power consumption in Russia, including the forecasts of Minenergo. The formulation of this programme involved the use of long-term forecasting models, which necessarily contain a substantial amount of assumptions as to various items, including future consumption patterns and prices. As a result of the high risk of inaccuracy that is inherent in these models, as well as the practical difficulties of any attempt by the Group to seek to revise this investment programme, the Group may be unable to receive a return on its investment in the expected amount or timeframe.

In particular, if the actual growth in demand for electricity in Russia is lower than has been forecasted, the load factor of the Group may not increase in line with current expectations or, depending on the allocation of load factors among power generation stations determined by the System Operator, may actually decrease. As a result, the Group may be unable to realise expected returns on its investments in facilities and infrastructure, which may materially adversely affect the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

RusHydro is relying to a great extent on a third party, United Company Rusal, in the implementation of its largest investment project.

In May 2006, RusHydro and United Company Rusal ("Rusal") entered into a co-operation agreement relating to the establishment of a 50/50 joint venture (the "BEMA project") for the completion and operation in the Krasnoyarsk Region of a hydro power plant, Boguchanskaya HPP, with an installed capacity of 3,000 MW, and an aluminium smelter, with a capacity to produce 597,000 tonnes of aluminium per year. The BEMA project is the largest of RusHydro's current investment projects. Under the co-operation agreement, for as long as RusHydro and Rusal each continue to control 50% of the joint venture, all expenses incurred in relation to, and all revenues derived from, the BEMA project are shared equally between RusHydro and Rusal. Due to the recent dramatic fall in aluminium prices resulting from the current global economic crisis, the parties have ceased construction of the aluminium smelter, with the date of commissioning of the first phase postponed until 2012. However, it was decided to proceed with the construction of Boguchanskaya HPP and to commission its first phase in 2010. In the first quarter of 2009, Rusal failed to perform its obligations to finance its share of the construction of Boguchanskaya HPP. As at 1 June 2009, Rusal's outstanding co-investment obligations amounted to RUB 1.45 billion. In light of Rusal's widely reported debt-refinancing difficulties, there can be no assurance that Rusal will duly perform its obligations under the co-operation agreement in the future. The co-operation agreement may not be unilaterally terminated by either party; and the procedure established by the co-operation agreement for forcing the removal of a defaulting party from the joint venture cannot, for a number of reasons, be applied at the current stage of the BEMA project, and there can be no assurance that it will be available in the future. Furthermore, the co-operation agreement imposes certain restrictions on the ability of either party to withdraw voluntarily from the BEMA project by selling its respective share to a third party in the event that the other party has declined to exercise its right of first refusal to purchase those shares. Therefore, there can be no assurance that, if RusHydro does not, for whatever reason, wish to continue its participation in the construction and operation of the aluminium smelter, it will be able to withdraw from the BEMA project. If Rusal fails to perform its obligations under the co-operation agreement, the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

Furthermore, the implementation of the BEMA project is dependent on certain infrastructure, including, in particular, a reservoir bed and power distribution grid that is primarily required for the

operation of Boguchanskaya HPP with an approximate value of RUB 20.7 billion, that the Government is constructing at its own expense. The commissioning date of the reservoir bed has already been postponed by one year to 2010, and it is possible that the required infrastructure will not be constructed in time or at all. In this case, the BEMA project would be adversely affected, which may materially adversely affect the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Customers may delay or fail to make payments to the Group for the electricity supplied by it.

The Group sells a substantial part of its electricity in the wholesale market under Regulated Contracts. See "Industry Overview – Overview of the Electricity Market – Wholesale Electricity (Capacity) Market". The customers under these Regulated Contracts are assigned by the operator of the wholesale market (the "Commercial Operator") to certain generators on the basis of several factors, including forecasts of electricity generation and consumption established by the FST. If a customer is unable to pay or delays payment for electricity supplied by an electricity generation company, that customer is subject only to certain sanctions, including fines, that are determined in the model agreement for admission to the wholesale electricity market approved by the Market Council, a self-regulated organisation whose members are participants in the wholesale electricity market. These sanctions cannot be varied in a Regulated Contract, and, in particular, an electricity generation company does not have the right to terminate a Regulated Contract or suspend electricity supply unilaterally in relation to a non-paying customer.

Many of these non-paying customers are regional electricity retail companies, which resell the electricity that they receive from an electricity generation company to end consumers. As a result, regional electricity retail companies are highly vulnerable to the ability or willingness of their end consumers to pay. Some of these end consumers, including individuals or state and municipal enterprises and institutions, have in the past been late with payments, or have failed to pay at all, for the electricity supplied to them, in part due to their poor financial condition and also as a result of regulatory and technical constraints. For example, a supplier is not permitted by applicable regulations to terminate its supply of electricity to a household customer unless the overdue debts of that customer to the supplier exceed six average monthly payments.

As at 22 May 2009, RusHydro had approximately RUB 1.2 billion (including VAT) in arrears under its Regulated Contracts for electricity and capacity that had been supplied up to 30 April 2009, with the largest amount of unpaid payments attributable to electricity retail companies located in the North Caucasus region. The number of non-paying customers has increased in recent years, and payment delays and failures at the end customer level or the regional retail company level could continue to increase in the future. If the Group is faced with any such payment delays or failures, and in particular if such payment delays or failures continue for a protracted period due to the inability of the Group to terminate or suspend its supply of electricity unilaterally, its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

The Group may be unable to generate electricity as required under its supply contracts and may therefore need to purchase additional volumes at higher prices on the spot market.

The amount of electricity that the Group is required to supply under its supply contracts is based on its forecast annual output. RusHydro, however, cannot necessarily predict with accuracy the volume of electric power that it will generate in the medium and long term. If, for any reason other than force majeure, the Group is unable to generate electricity as required under its supply contracts, it will have to purchase additional volumes of electricity at free-market prices in the "one-day-ahead" market or the balancing market. If the cost of such purchases is higher than the cost at which the Group generates electricity, or if the Group is unable to obtain supplies of such electricity on the wholesale market, its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

The nature of the future competitive environment in which the Group is expected to operate is uncertain and the Group may not be able to compete effectively in the future.

The Group competes with other producers of electricity in the Russian wholesale electricity market. The competition between power generation companies is expected to become more intense as the wholesale electricity market is further liberalised. New generation facilities may also enter the market. Many of the Group's competitors have announced plans to implement investment programmes in order to modernise or expand their generation facilities. There is no guarantee that

the Group will have the necessary financial, technical, marketing and other skills to be able to successfully manage the Group in a new, more competitive environment. In addition, the Group faces the risk that its consumers may construct their own, alternative power generation facilities to meet their power needs. If the Group is unable to compete effectively with such increased competition in the future, its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

The Group is dependent upon the services provided by, and the assets and infrastructure of, third parties.

The Group is dependent upon services provided by third parties. Many of these third parties are monopolies, and alternative providers are not available. Should any of these third parties fail to provide the relevant services for any reason, or if they provide sub-standard or delayed services, the operations or investment projects of the Group may be disrupted, which may materially adversely affect its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs. In addition, the majority of services provided by these third parties are provided at tariffs established by the FST, and any increases in these tariffs may materially increase the costs of the Group.

In particular, the retailing segment of the Group depends on the electricity transmission and distribution services provided by OJSC Federal Grid Company of Unified Energy System (“FSK”) and distribution grid companies. While the level of wear and tear of electricity transmission and distribution grids is very high, the existing system for establishing the grid companies’ tariffs for the provision of electricity distribution and transmission services and the connection of power plants and consumers has not, in the past, ensured an adequate level of investment in the modernisation and development of the grids. This high level of wear and tear and lack of investment, particularly when combined with the continuing increase in the electricity loads that the grids carry, may result in a decrease in the reliability of electricity supply and, in certain circumstances, in electricity outages. For example, in May 2005, there were electricity outages in several districts of the city of Moscow and in certain areas of the Moscow, Tula, Kaluga and Ryazan regions. Due to the condition of the generation facilities and the grid network, the Group may be particularly susceptible to interruptions caused by technical failures and emergencies. Any disruption to electricity distribution or transmission, including forced outages affecting any of the transmission or distribution grids that the Group relies upon, could result in decreased sales, and therefore decreased revenues, of the Group.

In the past, Russian power plants have not generally been run at full capacity. This was in part due to the RAO UESR’s control over generation levels at these plants, based on power requirements in the relevant region and, in part, due to the limited capacity of the electricity distribution and transmission grid, which is ageing and inadequate for present requirements. In some regions, due to the increase in electricity consumption, the electricity transmission and distribution grids’ carrying capacity is insufficient, and, according to Minenergo, in 2004-2008, a substantial number of new requests made by customers for connection to the power supply system were delayed or rejected. Furthermore, a significant proportion of transmission and distribution assets are now older than their originally envisaged useful life span. The ability of the Group to maximise its generation depends largely on the ability of the grid to handle greater volumes of electricity, and the current condition of the grid is likely to limit any increase in electricity generation. Such constraints on the generation levels of the Group could have a material adverse effect on its business, financial conditions or results of operations or the trading price of the DRs.

In addition, the Group is dependent on the System Operator, to which the functions and assets of regional dispatch administrations of energy networks have been transferred, and the Commercial Operator, which manages the trading system within the electricity wholesale market. A failure by the System Operator or the Commercial Operator to provide services to the Group could result in a reduction in the amount of electricity generated or actually delivered, which could have a material adverse effect on the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group’s operational and financial history is short.

RusHydro was founded in December 2004 and completed its corporate restructuring only in July 2008. As a result, the Group has a short operating history in its current form, and, consequently, there are limitations on the ability of prospective investors to review historical trends in RusHydro’s business and results of operations. Moreover, the framework of the electricity markets in which the Group operates was significantly changed by the New Wholesale Market Rules in September 2006 (see “Industry Overview – Overview of the Electricity Market”), and, as a result, a

comparative analysis of the financial reporting periods in the combined and consolidated financial statements may not provide an accurate comparison of financial results or a true indication of trends in the Group's business, particularly in light of the further reforms of this sector that are currently contemplated.

Any shortcomings in the Group's accounting systems and internal controls could have a material adverse effect on its business, financial condition and results of operations.

The Group's management regularly reviews key operational and financial data available in order that they can continue to assess the ongoing business performance and forecast the future prospects of the business. The Group's monthly management accounts are prepared under Russian generally accepted accounting principles, and the Group does not currently prepare monthly or quarterly consolidated IFRS accounts. The preparation of the annual and six month interim IFRS financial statements involves transformation of the financial information under RAS through accounting adjustments required by IFRS. Although the transformation is effected with the use of software, this process is complicated because of the differences in methods and principles of RAS and IFRS, which requires additional attention and monitoring from Group senior accounting personnel at its corporate headquarters and subsidiaries. In addition, the Group may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. If the Group is unable to maintain adequate management information systems, financial reporting functions and internal control systems, the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs may be materially adversely affected.

Notwithstanding the above, the Group believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

The Group has engaged and may continue to engage in transactions with related and other parties that may present conflicts of interest.

The Group has engaged in transactions with related parties, including its directors, management, the Russian Federation, its controlling shareholder, and other companies controlled by the Russian Federation, companies controlled by the Group or in which it owns an interest and other affiliates, and the Group may continue to do so in the future. Conflicts of interest may arise between the Group and its affiliates, potentially resulting in the conclusion of transactions on terms not determined by market forces.

The interests of the Russian Federation as the principal shareholder of RusHydro could conflict with those of other shareholders in RusHydro.

The Russian Federation, represented by the Federal Agency for the Management of the State Property ("Rusproperty"), currently holds 61.93% of the Shares. Moreover, on 17 November 2008, the General Meeting of Shareholders of RusHydro also approved the placement of an additional 16 billion Shares by open subscription for the purposes of financing the Group's investment programme. The new Share issuance was registered with the FSFM on 14 May 2009 and is expected to complete in September 2009. In accordance with the federal budget of the Russian Federation, it is expected that the Russian Federation will acquire 4,923,866,100 of the additional Shares in July 2009. In addition, on 10 June 2009, the General Meeting of Shareholders of RusHydro approved placement of an additional 19 billion Shares by open subscription, and the Russian Federation may acquire some of these Shares in exchange for shares held by the Russian Federation in various companies, including, primarily, subsidiaries of RusHydro. As a result, the Group is subject to policies regarding management, human resources and other matters followed by the Russian Federation and its agencies with respect to companies controlled by the Russian Federation. More generally, the Russian Federation exercises significant influence over the Group's strategy and business, including the decisions of shareholders and the Board of Directors of RusHydro. The interests of the Russian Federation as the principal beneficial shareholder of RusHydro could conflict with the interests of other shareholders of RusHydro, and the Russian Federation may make decisions that could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs. Some of these decisions may not be purely commercial but rather motivated by political, economic or social goals of the Russian Federation. Furthermore, the Russian Federation also controls, directly or indirectly, some of the Group's competitors, including Energoatom Concern, which operates all nuclear power plants in Russia, companies providing important services to the Group, including the dispatch, transmission and distribution of electricity, and some large customers of the Group. The interests of these companies may conflict with those of

the Group, and, in the event of such conflicts, the Russian Federation may choose to favour these companies' interests over the interests of the Group, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Pursuant to special rules for state-controlled companies, representatives of the Russian Federation vote at general shareholders' meetings of RusHydro and at the meetings of the Board of Directors based on formal instructions issued by Rusproperty. This requirement is mandatory for all items on the agenda of the general shareholders' meetings and principal items on the agenda of the Board of Directors' meeting. RusHydro is also included in the list of special state-owned companies that Rusproperty is required to manage in cooperation with the Government, so Rusproperty must agree in advance its voting instructions with the Government. In some cases, this decision making process may affect RusHydro's ability to make prompt decisions and timely meet challenges in the market, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group's plant and equipment is in many cases not in optimal condition, and it is to a large extent susceptible to natural disasters, technical failures or emergencies, increased maintenance costs and reduced reliability and efficiency.

As at 31 December 2008, 154 of the Group's power units (56% of its total number of units), with an aggregate installed capacity of 12,287.9 MW (48% of its aggregate installed capacity) had exceeded their useful life. These facilities generally have lower reliability and efficiency in comparison to newer facilities. For example, several hydro facilities of RusHydro may no longer meet certain applicable safety requirements. As a result, the Group's facilities may be particularly susceptible to technical failures, emergencies, natural disasters or other events beyond the control of the Group. Physical wear and tear and obsolescence of RusHydro's equipment could result in failures to provide a steady supply of power, a deterioration in performance, an increased risk of industrial accidents and unfavourable environmental consequences such as oil discharge into rivers from hydro generation equipment or land flooding. Such problems, if they occur, could lead to interruptions in the operations of the Group, resulting in significant losses as well as significant costs for the reconstruction of the facilities damaged as a result of a failure or an emergency. RusHydro's facilities may also incur additional expenses connected with planned and unplanned repairs and the maintenance of its generation or distribution capacity.

The Group may require significant capital investment.

The Group will need to undertake significant capital expenditures to maintain and modernise its existing facilities and to construct new facilities, including to increase its installed capacity as required by its investment programme. The current investment programme of the Group for 2009 and the estimated investment programme for 2010-2011 contemplate an aggregate expenditure from 2009 through 2011 of approximately RUB 206,410 million, including RUB 44,585 million devoted to renewal and reconstruction and RUB 143,912 million for the construction of new generation units. If the Group is unable to obtain such adequate financing on acceptable terms or at all, it may be required to delay or abandon its business or technical development plans, fall behind in its maintenance obligations or be unable to take advantage of opportunities or to meet unexpected financial requirements, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Due to the decentralisation of the decision-making bodies within the Russian power industry and the Government's insistence on the need for power generation companies to modernise and construct facilities in order to meet growing power demand, it is possible that demand for capital investment in the sector will continue to increase in the longer term, lowering the prices of the securities of the power generation companies and resulting in over-investment within the Russian power industry, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Without significant capital investment in its ageing facilities, it is possible that the Group will not be able to maintain the levels of overall productivity that are required for it to remain or become profitable. Even if the Group is able to attract the required financing for its capital investment, there is no assurance that it will be able to buy new equipment or modernise its existing facilities due to the demand for such equipment and services from other companies in the power industry, many of which are also undergoing modernisation programmes. If the Group is unable to modernise its plants and equipment, it may not be able to maintain its productivity, which could have a material adverse

effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group may not be able to complete its investment programmes on time, on budget or at all or to realise expected returns on its investments.

The Group has limited experience in large-scale construction and modernisation projects, such as those contemplated by certain of its existing or potential future investment programmes. The Group relies on the services of external contractors in order to implement the contemplated investment programme. The Group cannot guarantee that it will be able to maintain the relationships with them in the future. Further, the Group may not be able to monitor adequately whether the independent contractors are in full compliance with all applicable environmental, industrial, health and safety and licensing requirements, or obtain complete information about such contractors' actual operations. If any of the Group's key contractors rescinds or otherwise terminates or is unable to perform its contractors agreement, the Group may find it difficult or time-consuming to replace that contractor with an equally qualified contractor. As a result, the implementation of the Group's investment programme may be materially adversely affected. In addition, due to the relatively limited number of companies, including contractors and equipment producers, that are able to handle such projects, and the lack of qualified personnel at such contractors, there is no assurance that the Group will be able to hire contractors for such projects within the planned timeframe or according to the planned budget.

The Group may also need to purchase new equipment in order to fulfil the large-scale construction and modernisation contemplated by its existing or future potential investment programmes. It is possible that such equipment may not be available to the Group due to shortages in supply resulting from growth within the power market or price inflation. Accordingly, the Group may not be able to complete its investment programmes on time, on budget or at all, which could materially adversely affect its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Additionally, the Group may be unable to sell the output or capacity that it generates from newly constructed facilities, due to lack of demand or necessary third-party infrastructure. Therefore, the Group may be unable to realise the expected returns on its investments, which may materially adversely affect the Group business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group may incur material costs to comply with health, safety and environmental laws and regulations, and future changes to such laws and regulations may materially adversely affect its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group is involved in an industry that uses high-voltage equipment, which may involve health and safety risks or may pollute or be hazardous to the environment. As a result, the activities of the Group are subject to various federal, state and local health, safety and environmental protection laws and regulations. These regulations generally relate, among other things, to work conditions, the use of water, waste disposal, atmospheric emissions, the protection of endangered species and noise regulation. It may not be feasible for the Group to assess accurately the pollution risks and associated clean-up cost liabilities to which it may be subject, particularly in light of the uncertainties that exist in Russian environmental laws.

In recent years, new and stricter health, safety and environmental regulations have been imposed in Russia, and fines and other payments for violation of these regulations have been significantly increased, although these regulations still generally remain weaker and less stringently enforced than in the European Union or the United States. In the future, federal, regional or local authorities may impose stricter health, safety and environmental standards than those currently in effect or enforce or interpret the existing environmental laws, regulations or licences in a different or more stringent manner than they are currently enforced or interpreted. In such circumstances, Russian companies may be required to undertake further expenditures to modify their operations, ensure better work conditions, install pollution control equipment, introduce measures to reduce the impact of the Group's activities on the environment, curtail or cease certain of their operations, or to pay fees or fines for breaches of health, safety, environmental standards. There could be no assurance that the Group would be able to recover any such increased costs from its customers or that its business, financial condition or results of operations or the trading price of the DRs would not be materially adversely affected by health, safety and environmental laws and regulations.

Obsolescent power plants and equipment often have a greater environmental impact than newer power plants and equipment, and it may be more difficult to increase their environmental efficiency. See “Risk Factors – Risks associated with the Group and its operations – The Group’s plant and equipment is in many cases not in optimal condition, and it is to a large extent susceptible to natural disasters, technical failures or emergencies, increased maintenance costs and reduced reliability and efficiency”. To the extent that its technology becomes obsolescent, the Group may face an increase in expenditure to install modern, more environmentally-efficient equipment and to replace the obsolescent technology in order to conform to environmental regulations. Any such increase in expenditure or any failure to conform to environmental regulations could have a material adverse effect on the Group’s business, revenues, financial condition, results of operations or prospects or the trading price of the DRs.

The licences and permits that the Group requires for its business may become invalidated or may not be issued or renewed, or may contain onerous terms and conditions that restrict its ability to conduct its operations or to do so profitably.

Currently, under Russian law, it is not necessary to obtain a specific licence in order to generate power, although licences are required to perform necessary related activities, particularly in connection with the use of explosive and incendiary industrial facilities or the storage, transportation, processing and disposal of dangerous wastes, and there can be no guarantee that licences will not be required in the future for power generation or other related activities. The Group’s business depends on the Group’s ability to identify and obtain the licences that it requires, the continuing validity of some of its licences and permits, the issuance of new licences and the compliance by the Group with the terms of such licences and permits.

Some of the Group’s licences and permits (including those relating to water use and operation of hydrotechnical facilities) will expire in the autumn of 2009, and some others are in the process of being obtained or renewed following their expiry. Moreover, as a result of the introduction of self-regulatory organisations, from 1 January 2010 the Group will be required to obtain a permit issued by a self-regulatory organisation in relation to its construction activities. No assurances can be made that the existing licences and permits of the Group will be renewed, that any new licences and permits that it applies for will be granted or that it will be able to comply with the terms of its licences, particularly since Russian regulatory authorities exercise considerable discretion in the decision-making process relating to, and the terms and timing of, licence issuance and renewal and the monitoring of licensees’ compliance with licence terms. If the licensing authorities determine that a material violation of a licence term by the Group has occurred, the Group may be required to suspend operations or incur substantial costs to eliminate or remedy the violation, which could have a material adverse effect on its business, financial condition or results of operations or the trading price of the DRs. Requirements imposed by the licensing authorities, which require the Group to comply with licensing conditions, recruit qualified personnel, maintain necessary equipment, monitor their operations, maintain appropriate filings and, upon request, submit appropriate information to these authorities, are often costly and time-consuming and may impede the efficient running of the Group’s operations.

The Group relies on market forecasts and estimates in making its business decisions, and these forecasts and estimates may prove to be inaccurate.

The power market is dependent on various factors that may significantly influence levels of generation, consumption, supply and demand, tariffs, free-market prices and other power market dynamics. The Group is required to make short-term and long-term forecasts and estimates regarding these power market dynamics in order to formulate certain of its business decisions. Any inaccuracy in these forecasts or estimates could have a material adverse effect on the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs. For example, the Group may be unable to sell some or all of the electricity that it generates within the electricity market, or it may, alternatively, be unable to meet its electricity supply obligations to certain customers. As a result, the Group may be required to purchase electricity in the market at free-market prices and to resell it to customers at agreed prices, and, if it is unable to do so, the Group may be liable under Russian law to pay damages to those customers.

The Group may be unable to address daily, seasonal or yearly fluctuations in demand for electricity.

The demand for electricity in Russia may vary significantly on a daily, seasonal and yearly basis due to weather conditions and other factors. Demand for electricity is usually higher during the

period from October to March due to longer nights and colder weather, and it is generally lower in the period from April to September due to longer days and warmer weather. In addition, demand for electricity is usually higher during normal business hours during the day and for a longer duration during the period from October through March due to fewer daylight hours. Demand may also fluctuate from year to year due to changes in weather patterns. Therefore, the generation capacities of the Group may be fully utilised during certain parts of the day or during certain months, and under-utilised during other parts of the day and year.

If the Group fails to obtain its expected levels of revenue during the periods when its generation capacities are operating at their maximum loads, it may be unable to compensate for lost revenues during periods when the demand for electricity is lower. If the Group is unable to address or forecast these daily, seasonal and yearly fluctuations in demand for electricity, its business, financial condition, or results of operations or the trading price of the DRs in a given year may be materially adversely affected, and its financial condition and results of operations may vary significantly from year to year.

The electricity output of the Group depends significantly on the waterflow in the river systems where it operates as well as on the operating regimes of water reservoirs established by the Federal Agency on Water Resources, and, moreover, any substantial increase in payments for water use could adversely affect the Group's financial condition.

The hydrogeneration business is heavily influenced by weather conditions and only certain regions of Russia experience enough precipitation to feed river systems that can provide sufficient waterflow for hydro power plants. Therefore, the volume of electricity that can be produced by the Group depends significantly on the available waterflow in the river systems which supply its generation facilities. Adverse weather conditions that impede normal waterflow in the river systems, such as freezing conditions, drought or insufficient precipitation, may force the Group to reduce its electricity output. For example, in 2008 the waterflow at Novosibirskaya HPP, Neporozhniy Sayano-Shushenskaya HPP and Bureyskaya HPP was only 69%, 82% and 76%, respectively, of the average historical level, which contributed to a reduction of electricity output by the Group compared to previous years. Should adverse weather conditions become protracted, the electricity output and revenues of the Group are likely to decline, which could have a material adverse effect on its business, financial condition, or results of operations or the trading price of the DRs. In addition, fluctuations in weather conditions hinder the Group's ability to accurately forecast its future output, and, as a result, the Group may be unable to generate electricity required under its mid-term or long-term electricity supply agreements.

In addition, the electricity output at hydro power plants varies significantly during the year. The Group's output is usually higher in the period from spring to summer due to the higher water flows that pass through its hydro power plants, and, conversely, output is lower in the period from autumn to winter due to reduced water flows. The Group may fail to obtain its expected levels of revenue during the periods when its generation capacities are able to operate at their maximum load, and, due to low demand or for other reasons, it may even be required to make idle discharges of water which could have otherwise been used for electricity generation. In such circumstances, the Group may be unable to compensate for lost revenues during periods when its electricity output is lower, which could have a material adverse effect on its business, financial condition, or results of operations or the trading price of the DRs.

Furthermore, the Group must use the water reservoirs on which it relies in compliance with "operating regimes" that are established by the Federal Agency on Water Resources at least once per month. Operating regimes determine the average daily volume of water that the Group may pass through its hydro power plants. As a result of the strict regulation of the operating regimes of water reservoirs, the Group has only a limited ability to respond to changes in waterflow by increasing the volume of water that it takes from reservoirs in order to maintain or increase its output.

Moreover, the Group has entered into a number of agreements relating to the use of water for electricity production purposes. See "Regulatory Matters – Licensing of Operations – Use of Surface Waters". The rates of payment for water use are established by the Government, and any substantial increase in payments for water use could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group may be unable to attract or retain key personnel.

The success of the Group depends in part upon the efforts and abilities of key personnel, such as engineering, sales, programming, technical, financial and accounting, marketing and management

staff, as well as upon the ability of the Group to continue to attract and retain such personnel. The competition in Russia for some of these personnel is intense due to the limited number of qualified individuals, particularly in some regions and in areas requiring specialised training, such as IFRS reporting and accounting. There can be no assurance that the Group will be successful in attracting and retaining qualified individuals in the future, and any failure to do so may have a material adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group may not be able to renew its existing arrangements with trade unions on favourable terms, and its operations could be adversely affected by strikes and lockouts.

As at 31 December 2008, approximately 60% of the Group's employees were represented by trade unions. The Group has not experienced any business interruption as a result of labour disputes at any of its businesses in the past, and the Group considers its relations with employees to be good. Nonetheless, large union representation subjects the Group's businesses to the risk of interruptions through strikes, lockouts or delays in renegotiating labour contracts. The Group may not be able to renew existing arrangements with trade unions on favourable terms. If this were to occur, there could be a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Insurance carried by the Group may not protect it adequately against relevant risks.

The insurance industry is not yet well developed in Russia, and some forms of insurance protection common in more developed countries are not yet available in Russia on comparable terms, including coverage for business interruption and director and officer liability. The Group carries only limited insurance coverage for third party liability for injuries and losses, including environmental damage, caused by accidents at its industrial facilities and hydrotechnical facilities, and it does not carry business interruption insurance. Accordingly, the Group may be subject to claims not covered, or not sufficiently covered, by insurance, which could have a material adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group must observe certain financial and other restrictive covenants under the terms of its indebtedness. The failure to comply with such covenants could put the Group into default.

As at 31 December 2008, the current and non-current debt of the Group was RUB 23,392.4 million. Under the terms of some of its loan agreements and other indebtedness, the Group is subject to financial and other restrictive covenants that limit its ability to, among other things, create liens or other encumbrances, make acquisitions or investments, sell, transfer or otherwise dispose of assets or receivables, or engage in mergers, acquisitions or consolidations. The terms of the Group's indebtedness also require it to operate within specified financial ratios. For example, some of the Group's loan agreements require it to maintain a specified ratio of consolidated gross debt to consolidated EBITDA, financial leverage, current liquidity and consolidated EBITDA to interest payments.

The need to observe financial ratios and other restrictions could hinder the Group's ability to carry out its business strategy. In addition, any breach of these terms could result in an event of default under the terms of its indebtedness, causing some or all of its indebtedness to become immediately due and payable. Any such action could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group is exposed to interest rate risk.

As at 31 December 2008, the Group had RUB 7,523.8 million of non-current debt (excluding finance lease liabilities) bearing floating rates determined by reference to the Moscow prime offered rate ("MOSPRIME"). In addition, RusHydro issued a guarantee in March 2007 in connection with the BEMA project under which it guaranteed 50% of the liabilities of OJSC Boguchansky Aluminium Plant under a USD 520 million loan bearing interest at a rate of LIBOR plus 0.825%. In the fourth quarter of 2008, the global economic crisis and a rapidly deteriorating situation in the Russian credit market led to a sharp increase in floating rates. For example, under the terms of some of the Group's loan agreements whose interest rate is linked to MOSPRIME, the actual interest rate for October-November 2008 was approximately 2.4-2.6 times higher than in previous interest periods. In order to hedge against a further increase of floating rates, RusHydro agreed with its credit institutions to fix interest rates for 2009. However, there can be no assurance that RusHydro will continue to be able

to fix the interest rates for future periods at acceptable levels, or that RusHydro will be able to otherwise address interest rate risks in the future. Any increase in interest rates in the future could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Some of the Group's operations are located in remote areas with harsh climates.

Some of the Group's generation assets are located in remote areas with harsh climates, including the Magadan Region, Krasnoyarsk Region and Kamchatka Region. Although the Group currently employs technologies for operating in the harsh climate of these areas, there can be no assurance that the Group will be able to continue to overcome the technical challenges related to weather and climate in these locations at a commercially reasonable cost, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

POLITICAL RISKS IN THE RUSSIAN FEDERATION

Investments in businesses operating in emerging markets are generally subject to greater risks than those operating in more developed markets.

Investing in emerging markets, including Russia, involves greater risks than investing in more developed markets, including, in some cases, significant political, economic and legal risks, as more fully described below. Investors should note that the conditions in these markets are subject to rapid change, and the information set out in this Prospectus may become outdated relatively quickly. Financial turmoil in one emerging market country tends to adversely affect prices in equity markets of many emerging market countries or the equity prices of companies that do business in such countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in emerging economies, could dampen foreign investment in these markets and adversely affect their economies. In addition, during such times, companies that operate in emerging markets could face severe liquidity constraints as foreign funding sources are withdrawn. Financial turmoil in other emerging market countries could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Any significant struggle over the direction of future reforms, including the power industry reform, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate.

Since 2000, the political and economic situation in Russia has generally become more stable and conducive to investment, although the recent global economic crisis has had a destabilising effect on the Russian economy. Moreover, any significant struggle over the direction of future reforms, including the power industry reform, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain the ability of the Group to obtain financing in the international capital markets, limit its activities in Russia or otherwise have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

LEGAL AND REGULATORY RISKS AND UNCERTAINTIES IN THE RUSSIAN FEDERATION

Weaknesses relating to the Russian legal system create an uncertain environment for investment and business activity.

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies between and among laws, presidential decrees, instructions and Governmental and ministerial orders and resolutions;
- conflicting local, regional, and federal rules and regulations;
- the lack of well-defined judicial or administrative guidance regarding the interpretation of the applicable rules;
- the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences;
- the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements;
- interference in business on the part of Governmental authorities;

- substantial gaps in the regulatory structure due to delays in, or the absence of, implementing regulations;
- bankruptcy procedures that are not well-developed and are subject to abuse;
- a lack of binding judicial precedent; and
- the complexity of enforcement of both Russian and non-Russian judicial orders and arbitral awards.

All of these weaknesses may affect the ability of the Group to protect and enforce its legal rights, including rights under contracts, and to defend itself against third party claims.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. Legal and bureaucratic obstacles and corruption exist to varying degrees in the Russian regions in which the Group operates and these factors are likely to hinder its further development. These characteristics give rise to certain investment risks that do not always exist in countries with more developed legal systems.

In particular, because of the current state of the Russian legal system, it is uncertain whether the Group would be able to enforce its rights in disputes with its contractual partners or other parties, including state authorities. The ability of the Group to operate in Russia could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations.

Furthermore, the enforceability of these rights is dependent on the Russian courts, which are not always effective. Enforcement of court orders can, in practice, be very difficult in Russia. The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences is less than complete. Russia, like many western European states, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can be time consuming due to large numbers of outstanding court judgments. In addition, court claims are often used in furtherance of political aims.

Any or all of these weaknesses in the Russian legal system could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the DRs.

RusHydro, its predecessors or shareholders may have undertaken transactions that could be subject to legal challenge for non-compliance with applicable legal requirements.

RusHydro, its predecessors and major shareholders have taken a variety of actions relating to share issuances, share disposals and acquisitions, valuation of property, interested party transactions (see "Description of Share Capital and Certain Requirements of Russian Legislation – Interested Party Transactions"), major transactions (see "Description of Share Capital and Certain Requirements of Russian Legislation – Major Transactions"), anti-monopoly issues and other matters in respect of which RusHydro, its legal predecessors or its shareholders may not have fully complied with applicable legal procedures and which, therefore, could be subject to a legal challenge. In particular, the merger agreement of 24 companies into RusHydro in January and July 2008 was not approved as a major transaction. Although the one year statute of limitations for the invalidation of any major and interested party transactions entered into in violation of statutory requirements (determined from the date the claimant learned or should have learned about the purported violation) is likely to have expired, no assurances can be given that no claims will be brought in the future seeking to invalidate these transactions.

If challenges to any transactions entered into by RusHydro or any of its predecessors or shareholders were successful, the relevant transaction could be invalidated or RusHydro could incur liabilities. Moreover, since applicable provisions of Russian law are subject to many different interpretations, RusHydro or its shareholders may not be able to successfully defend any such challenge brought against it. For example, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to differing interpretations and there is no assurance that former, current or future minority shareholders of RusHydro will not seek to challenge transactions on such grounds in the future. Any such invalidation of a transaction or

imposition of liabilities could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the DRs.

Any increase or change in governmental regulation of the Group's operations, or unlawful, selective or arbitrary governmental action, could restrict its ability to conduct its operations or to do so profitably.

The Group carries out its business and operations in the Russian electricity markets, which are heavily regulated by Russian federal authorities and by the authorities of the Russian regions in which the power plants of RusHydro are located. Regulatory authorities in Russia exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards. Furthermore, Russian authorities have the right to, and frequently do, conduct periodic inspections of the operations and properties of Russian companies throughout the year. A finding that the Group has violated applicable laws, decrees or regulations could result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Group's licences or permits, an order that the Group ceases certain business activities or in criminal and administrative penalties being applied to the officers or employees of the Group. Any such decisions, sanctions, orders, penalties, or any increase in Governmental regulation of the operations of the Group, could restrict its ability to conduct its operations or to do so profitably, which could have a materially adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Moreover, Government officials have a high degree of discretion in Russia and have the ability to exert significant influence on individuals and corporations, sometimes in a manner that is contrary to law or influenced by political or commercial considerations. There have, for example, been recent cases where the Russian tax authorities have brought claims against specific companies and individuals based on allegedly invalid non-arm's length transactions or tax evasion. In this environment, competitors of the Group may receive preferential treatment from Government officials, potentially giving them a competitive advantage over the Group. Unlawful, selective or arbitrary action of Government officials, if directed at the Group, could have a material adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Group's assets may be subject to the risk of expropriation and nationalisation.

The Russian Federation has enacted legislation to protect property against expropriation and nationalisation. If the property of the Group is nationalised or expropriated, legislation provides for fair compensation. It is not clear from the applicable legislation how such compensation would be calculated or whether there is any way to seek to challenge the expropriation or nationalisation of property. In addition, it is possible that due to a lack of experience in enforcing these provisions or due to political change or otherwise, legislative protections may not be enforced in the event of an attempted nationalisation. The nationalisation or expropriation of any of the assets of the Group could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs. Furthermore, the concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against nationalisation or expropriation. As a result, the Group may not be able to obtain proper redress in the courts and may not receive adequate compensation if in the future the state decides to nationalise some or all of its assets. If this were to occur, the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs could be materially adversely affected.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

In certain instances, Russian law may allow a court to order the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during its formation, reorganisation or day-to-day operations. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity, or non-compliance by a Russian legal entity with provisions of Russian law, have been used by Russian courts as a basis for liquidation of that legal entity. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that a company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of a company or its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation which held that even repeated violations of law may

not serve as a basis for an involuntary liquidation of a company, and that consideration should be given to whether the liquidation would be an adequate sanction for such violations.

For example, under Russian corporate law, in the event that a company, as at the end of its second or any subsequent financial year, has net assets lower than the statutory minimal charter capital or negative net assets calculated on the basis of RAS, a court may order the liquidation of that company upon a claim by governmental authorities. The existence of such negative assets may not, however, accurately reflect their actual ability to pay debts as they come due. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental authorities may seek the liquidation of a company with negative net assets if that company does not take a decision on its liquidation (or on a reduction of its charter capital, if the net assets of that company are below its charter capital) within a reasonable time period. If the involuntary liquidation of one or more of the Group companies were to occur, investors could lose their entire investment.

Difficulties exist in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered.

After the Soviet Union ceased to exist, land reform commenced in Russia. Over the years that followed, real estate legislation changed substantially; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. In addition, almost all of the Russian regions enacted their own real estate legislation. Until recently, the real estate legislative regime in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had the power to sell, lease or otherwise dispose of land. In 2001, the Civil Code of the Russian Federation (the “Civil Code”) was amended and a new Land Code of the Russian Federation and a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. As a result, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. In particular, there are uncertainties in Russian law regarding the possibility of registration of rights to land located under water bodies on which a substantial part of the Group’s generation facilities have been constructed. The Group currently uses these lands without officially registered rights. Furthermore, as a result of Russia’s vast territory, difficulties associated with the country’s transitional phase and the severe climatic conditions in, and difficult access to, the areas where many of the land plots and other real properties of the Group are located, the process of land surveying and title registration may be complicated and last for a long period. These uncertainties may have a material adverse effect on the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Moreover, the Group uses parcels of land pursuant to a special title of perpetual use, which gives it the right to use the land, but not to alienate it. Russian law requires companies that have a title of perpetual use to land plots to purchase or lease the land on which they operate by 1 January 2010. If the Group is not able to finalise lease arrangements for some of the land on which its operations are located by that date, it may be subject to administrative fines.

RISKS RELATING TO RUSSIAN SECURITIES MARKETS AND THE LAWS AND REGULATIONS GOVERNING THEM

Lack of developed corporate and securities laws and regulations in Russia may limit the ability of Russian companies to attract future investment or undertake capital markets transactions.

The regulation and supervision of the securities markets, financial intermediaries and issuers are considerably less developed in Russia than in the United States, the United Kingdom and other western European countries. Many securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, while laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are still at an early stage of development. In addition, the Russian securities markets are regulated by several different agencies, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance of the Russian Federation (the “Ministry of Finance”);
- the Federal Anti-Monopoly Service (“FAS”);

- the CBR; and
- various professional self-regulatory organisations.

The regulations of these various agencies are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations and their interpretation or application can change rapidly, which may materially adversely affect the ability of Russian companies to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations or decisions issued by the various regulatory authorities apply. As a result, the Group may face difficulties when undertaking capital markets transactions or in complying with its ongoing securities law obligations or be subject to fines or other enforcement measures. These weaknesses could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Corporate governance standards in Russia are less developed than those in western Europe or the United States, and there is only limited protection of minority shareholders in Russia.

Corporate governance standards in Russia are less developed than those in western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and information disclosure both to the public and to shareholders, a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights. Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

Despite recent amendments to the Joint Stock Companies Law, minority shareholders have limited ability under Russian law to protect their rights against majority shareholders. In general, minority shareholder protection under Russian law is derived from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that a company purchase the shares held by that shareholder if such shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of uninterested shareholders for certain transactions with interested parties. While these protections are similar, for example, to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies, in terms of minority shareholder rights as well as in other respects, have not always proven to be as rigorously applied as in western companies.

In addition, as a general rule, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the issued and outstanding shares of a company may have 75% or more voting power if some minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of that company or significant transactions (including asset transfers), which could be prejudicial to the interests of minority shareholders. It is possible that the Russian Federation, which holds the majority of the issued Shares, may in the future not act in the best interests of minority shareholders, and this could materially and adversely affect the business, financial condition and results of operations of the Group.

While the Joint Stock Companies Law provides that shareholders owning 1% or more of a company's common stock may bring an action for damages to that company caused by that company's managers or directors, and provides further that any shareholder may bring actions against a company's management and directors for compensation of damages caused by breach by those directors or management of certain anti-takeover provisions of the Joint Stock Companies Law, Russian courts to date do not have much experience with respect to such lawsuits. In Russia, there is no recognised practice of class action litigation. Accordingly, investors' ability to pursue legal redress against RusHydro and its managers and directors may be limited, reducing the protections available to shareholders of RusHydro and, indirectly, holders of the DRs.

Shareholder rights provisions under Russian law may impose additional costs on the Group.

Russian law provides that shareholders of a Russian company have the right to sell their shares to that company at market value if those shareholders vote against, or do not participate in voting on, certain significant matters, including:

- decisions with respect to a reorganisation;
- the approval by shareholders of a “major transaction”, which, in general terms, is a transaction involving property worth more than 50% of the balance sheet value of that company’s assets calculated according to RAS as at the latest reporting date, regardless of whether the transaction is actually consummated; and
- the amendment of that company’s charter, or adoption of a new version, in a manner that limits shareholder rights.

The obligation of RusHydro to purchase shares in these circumstances is limited to 10% of its net assets calculated in accordance with RAS at the time the matter at issue is voted upon. Any such repurchases could result in the incurrence of additional material expenses and have a material adverse effect on the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

ECONOMIC RISKS RELATING TO THE RUSSIAN FEDERATION

Economic instability in the Russian Federation could adversely affect the Group’s business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Since the early 1990s, the Russian economy has at various times experienced:

- significant declines in gross domestic product and consumption;
- hyperinflation;
- an unstable currency, including periods of significant decline in its value relative to other currencies;
- extreme volatility in its securities markets and unplanned market interruptions;
- high Government debt relative to gross domestic product;
- significant declines in gold and foreign currency reserves;
- weak banking systems providing only limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and crime;
- significant increases in unemployment and underemployment; and
- the low standard of living of a large portion of the population.

In the past, the Russian economy has been subject to abrupt downturns. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its Russian rouble-denominated securities, the CBR stopped its support of the Russian rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Russian rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, as evidenced by the termination of the banking licences of a number of major Russian banks.

Following the 1998 crisis, and until recently, the Russian economy experienced positive trends, such as an increase in the gross domestic product, a relatively stable currency, increasing foreign

currency reserves, strong domestic demand, rising real wages and, in historic terms, a reduced rate of inflation.

These trends, however, may not continue or may be abruptly reversed, particularly in light of the current crisis in the financial markets. The current financial crisis has led to reports of a severe constriction in available financing, leading the Government to inject substantial funds into the banking system amidst reports of difficulties among Russian banks and other financial institutions. The trading on MICEX and RTS has been suspended on several occasions since mid-September 2008.

The Government has taken a number of steps in order to support the stability of the Russian banking system, including allocating RUB 1 trillion to the largest state banks (Sberbank, VTB, Gazprombank) for lending to other banks operating in Russia; depositing through the CBR USD 50 billion with the state bank Vnesheconombank (VEB) to refinance the debt of Russian companies owed to foreign creditors, and depositing RUB 1.5 trillion worth of Government budget funds with various banks included on a list of 28 banks entitled to hold such funds.

In December 2008, the Government issued a list of 295 companies, including RusHydro, defined as strategically important and which will be eligible to receive state support in response to the financial crisis. The inclusion of a company in the list is not a guarantee that such company will receive financial help. The declared main objective is to support the stability of that company by using not only credit instruments but other measures, such as the issuing of state guarantees, the restructuring of tax arrears or the granting of custom benefits.

The Russian economy remains poorly diversified and is largely dependent on the natural resources sector. For example, as Russia produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of oil and gas on the world market, and a decline in the price of oil or gas could slow or disrupt the Russian economy. Each of these factors could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

Inflation may materially adversely affect the Group's results of operations.

The Group's production activities are located in Russia, the majority of its direct costs are incurred in Russia and it incurs almost all of its direct costs in roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% that year. Notwithstanding recent reductions in the inflation rate, which was 11.7% in 2004, 10.9% in 2005 and 9% in 2006, the inflation rate increased to 11.9% in 2007 and 13.3% in 2008 (source: Rosstat), and continued to increase in the first three months of 2009. Russian companies, including the Group, have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as for supplies and materials, as well as for salaries. High rates of inflation in Russia could increase the costs and decrease the operating margins of the Group, which could have a material adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

The Russian banking system remains underdeveloped, and a worsening of the banking crisis could place severe liquidity constraints on the operations of the Group.

Russia's banking and other financial systems are not well developed or well regulated, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent applications. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks. The Government's default on its internal debt obligations in August 1998 triggered a substantial decline in the value of the rouble and the bankruptcy of a number of prominent Russian banks and businesses.

Prior to the current international financial crisis, there was a rapid increase in lending by Russian banks, which may have been accompanied by deterioration in the credit quality of their loan portfolios. In addition, a robust domestic corporate debt market was leading Russian banks to hold increasingly larger amounts of Russian corporate rouble bonds in their portfolios, which further deteriorated the risk profile of the assets of Russian banks.

The international financial crisis has led to the collapse of some Russian banks and to liquidity constraints for others. The Group generally conducts its banking relationships with, and maintain accounts in, a small number of large, reputable Russian banks. Nevertheless, a worsening of the banking crisis or the bankruptcy or insolvency of the banks in which the Group holds its funds could result in the loss of its deposits or affect the ability of the Group to complete banking transactions, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs, particularly if the Group's customers were also unable to access their bank deposits and therefore to pay for the electricity supplied by the Group.

Restrictive currency regulations may have a material adverse effect on the business, financial condition and results of operations of Russian companies.

Notwithstanding the significant recent liberalisation of the Russian currency control regime and the abolishment of certain restrictions from 1 January 2007, the current Russian currency control laws and regulations still contain a number of limitations. In particular, Russian companies must notify the Russian tax authorities on each occasion when they open, close or change the details of bank accounts denominated in any currency with banks located outside of the Russian Federation. This notification must be filed within one month from the date on which such an account was opened or closed or on which the account details were changed. Moreover, currency controls restrictions still include a general prohibition of foreign currency operations between Russian companies (except for operations specifically listed in the Currency Law and the operations between the authorised banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings into Russia. Restrictions on the ability of the Group to conduct some of these transactions could increase costs or prevent it from successfully implementing its business strategy, which could have a material adverse effect on its business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

As a result of the current state of the banking sector, considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. In addition, delays may occur in converting roubles into and out of foreign currency in order to meet certain payments. Any delay or other difficulty in transferring or remitting funds, converting roubles into a foreign currency or transferring foreign currency to make a payment could limit the ability of the Group to meet payment and debt obligations as they become due, which could result in the acceleration of debt obligations and cross-defaults, and, in turn, have a material adverse effect on the Group's business, revenues, financial condition, results of operations, prospects or the trading price of the DRs.

TAXATION RISKS

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement.

At the end of the 1990s, the Government initiated reforms of the tax system, including a substantial redrafting of the tax law into the Tax Code of the Russian Federation No. 146-FZ dated 31 July 1998, as amended (the "Tax Code"), which resulted in reduced rates of corporate profits tax and personal income tax. Despite these steps to reduce the overall tax burden on taxpayers in recent years, Russia's largely ineffective tax collection system and continuing budgetary funding requirements increase the likelihood that the Government will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects or the trading price of the DRs.

Furthermore, Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, under certain circumstances, the three-year statute of limitations for the assessment of taxes pursuant to a tax audit can be significantly extended. According to the Constitution of the Russian Federation, laws which introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. However, there were several instances when such laws were introduced and applied retroactively. Additionally, the Government has used the enforcement of tax legislation as a basis for significant state intervention in certain key industries.

In addition to the usual tax burden imposed on Russian taxpayers, the conditions referred to above complicate tax planning and related business decisions. The uncertainties caused by such conditions could possibly expose RusHydro to a greater than expected tax burden, significant fines and penalties and to potentially severe enforcement measures, which could have a material adverse

effect on RusHydro's business, financial condition, results of operations and prospects and the trading price of the DRs.

It is expected that Russian tax legislation will continue to develop, which may result in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of such measures may result in significant additional taxes becoming payable and an increase in RusHydro's tax burden. Any such additional tax burden could have a material adverse effect on RusHydro's results of operations and financial condition and the trading price of the DRs.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers. The Group therefore may be subject to greater than expected tax burdens that could materially adversely affect the Group's business and results of operations.

Russian tax law and practice is not as clearly established as compared to more developed market economies, and the practices adopted by the Russian tax authorities may not always be in full accordance with the law. The Russian tax authorities do not always apply the law evenly to all taxpayers, in some circumstances allegedly due to political motivations. It is possible that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retroactive effect, even though legislation with retroactive effect that causes a deterioration in taxpayers' positions is generally prohibited.

Generally, taxes payable by Russian companies are substantial and numerous. Such taxes include, among others:

- corporate income tax;
- value-added tax ("VAT");
- transportation tax;
- excise taxes;
- land tax;
- unified social tax;
- water tax;
- property tax and some other taxes.

Historically, the tax environment in the Russian Federation has been complicated by the fact that various authorities have often issued contradictory or retroactive pieces of tax legislation. For example, tax laws are unclear with respect to the deductibility of certain expenses. As a result, RusHydro may have taken positions in the past which management considered at the time to be in compliance with then-current tax law, but such positions could be subject to challenge by tax authorities in the future. Despite efforts at compliance, such uncertainty potentially exposes RusHydro to the risk of significant fines, penalties and enforcement measures, and could result in a greater than expected tax burden.

In practice, the Russian tax authorities often interpret the tax laws in a way that does not favour taxpayers, who often have to resort to court proceedings to defend their positions against the tax authorities. Differing interpretations of tax regulations exist both among and within Government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years preceding the year in which an audit is carried out. Previous audits do not exclude subsequent claims relating to the audited period and the statute of limitations existing in relation to penalty charges is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect.

On 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year period if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, amendments to the first part of the Tax Code, effective from 1 January 2007, provide for the extension of the three-year statute of limitations with respect to tax penalties if the actions of the taxpayer created insurmountable obstacles for the tax audit. Since these terms are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created

insurmountable obstacles” in respect of an inspection and ultimately to seek penalties beyond the three-year term.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, which introduced a new concept of “unjustified tax benefit” by providing that a tax benefit may be challenged in the event that a transaction lacks a business purpose and is aimed at achieving an unjustified tax benefit. There is no guidance on how the tax authorities or courts should interpret this new concept, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat the abuse of tax law, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court. Furthermore, Resolution of Plenum of Supreme Court No 64 of December 28, 2006 “About the practice of the application of the responsibility for tax crimes” may be interpreted as indicative of the trend to broaden the application of criminal responsibility for tax violations.

The foregoing conditions create tax risks in the Russian Federation that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group’s operations and management resources. Further, these risks and uncertainties complicate the Group’s tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, despite their best efforts at compliance, and could materially adversely affect the Group’s businesses, financial condition and results of operations and the trading price of the DRs.

The financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of RusHydro’s Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the profit or loss of any of RusHydro’s other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9%, if distributed to Russian corporate residents, and 15%, if distributed to foreign residents, subject to any applicable double tax treaty. If the company that receives the intercompany dividends is a Russian legal entity, these dividends may be subject to 0% tax rate provided that:

- on the day of the adoption of a decision on the payment of dividends, the company that receives the dividends has continuously held for not less than 365 calendar days a stake of not less than 50% in the registered (share) capital of the company that pays out dividends or DRs entitling the recipient to receive dividends in an amount that corresponds to no less than 50% of the total sum of the dividends payable by the company distributing such dividends;
- the cost of the acquisition and/or obtaining, in accordance with the legislation of the Russian Federation, its ownership of the share (stake) in the registered (share) capital of the company which pays dividends or DRs giving the right to receive dividends, exceeds RUB 500 million; and
- the company paying the dividends is not based in a jurisdiction included in the list of the Ministry of Finance of states and territories with preferential tax regimes and/or not requiring disclosure of financial operations information (off-shore zones).

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact the Group’s business, financial condition and results of operations.

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, provided that the transaction price differs from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with “significant price fluctuations” (defined as a fluctuation where the price of such transactions differs from the prices for similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to operations with securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules are to be applied, and moreover, Russian transfer pricing rules are vaguely drafted, leaving wide scope for their interpretation to the discretion of the Russian tax authorities and arbitration courts, and their use in politically motivated investigations and prosecutions. In addition, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to the

adjustment. Due to the uncertainties in the interpretation of transfer pricing legislation, there is a risk that the tax authorities may challenge the prices of some of the Group's transactions and propose adjustments, and, to the extent that any such challenge is upheld by the Russian arbitration courts and implemented, the Group's results of operations and financial condition, as well as the trading price of the DRs, could be materially adversely affected.

The Ministry of Finance is in the process of drafting proposed amendments to the transfer pricing legislation, and a draft law is under discussion that will potentially tighten transfer pricing rules. It is currently difficult to predict the likely impact of this potential new law on taxpayers in Russia.

RISKS RELATING TO THE DRS AND THE TRADING MARKET

Due to the lack of a central share registration system in Russia, transactions in a company's shares may be improperly or inaccurately recorded and share registrations may be lost.

Ownership of Russian joint-stock company shares is documented by entries in a share register and is evidenced by extracts from that register, or, if the shares are held through a nominee or custodian, ownership is evidenced by entries in deposit accounts with such nominee or custodian which, in turn, is registered in the share register. Currently, there is no central share registration system in Russia. Shareholder registers are maintained by the companies themselves or, if a company has more than 50 shareholders or it so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars and custodians, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars and custodians generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective state supervision.

Russian law does not expressly prohibit affiliation between a registrar and its shareholders, including the entities whose share registers such registrar maintains. Due to the lack of a central and rigorously regulated share registration system in Russia, share transactions may be improperly or inaccurately recorded and share registration may be lost, whether through fraud, negligence, or oversight by registrars and custodians. This creates risks of loss not normally associated with investments in certain other securities markets. The registrars and custodians are likely to be incapable of compensating shareholders for registrar misconduct. Under Russian law, registrars bear liability only in case of their wilful violation of procedures for keeping the share register. With respect to other breaches, liability is imposed either on the company or, if it is provided in the agreement between the company and its registrar, on the company and the registrar jointly. OJSC Moscow Central Depository maintains the share register of RusHydro. Further, the Depository, under the terms of the Deposit Agreements, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares.

Because the Depository may be considered the owner of the Shares represented by the DRs, such Shares may be seized or arrested in legal proceedings in Russia against the Depository, and the Depository may be subject to various requirements of Russian law.

Many jurisdictions, including the United Kingdom and the United States, distinguish between legal owners of securities, such as a depository, and the beneficial owners of securities, such as the DR holders. In these jurisdictions, shares held by a depository on behalf of the holders of depository receipts should not be subject to seizure in connection with legal proceedings against the depository that are unconnected with the relevant shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership, and it may only recognise the rights of the Depository in whose name the shares are held. Thus, in proceedings brought against the Depository, whether or not related to the Shares represented by the DRs, Russian courts may treat those underlying Shares as the assets of the Depository, and therefore open to seizure or arrest.

If a lawsuit seeking the seizure or arrest of the Shares underlying the DRs were to be successfully initiated in the future against the Depository, and the Shares represented by the DRs were to be seized or arrested, DR holders would be likely to lose their rights to such underlying Shares and the DR holders could lose all of their investment in the DRs.

Voting rights with respect to the Shares represented by the DRs are limited by the terms of the relevant Deposit Agreement and the relevant requirements of Russian law.

DR holders have no direct voting rights with respect to the Shares represented by the DRs. DR holders are able to exercise voting rights with respect to the Shares represented by DRs only in accordance with the applicable provisions of the relevant Deposit Agreement, the terms and conditions of the DRs and the relevant requirements of Russian law. The ability of DR holders to exercise their voting rights is limited due to the additional procedural steps involved in communicating with them. For example, RusHydro is required under its articles of association (the “Articles of Association”) to notify shareholders at least 30 days in advance of any shareholders’ meeting and, in relation to an extraordinary meeting to elect directors and on certain other matters, Federal Law “On Joint Stock Companies” No. 208-FZ dated 26 December 1995, as amended (the “Joint Stock Companies Law”) requires at least 70 days’ notice. Holders of Shares receive notice directly from RusHydro and are able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

DR holders, by comparison, do not receive notice directly from RusHydro. Rather, in accordance with the relevant Deposit Agreement, RusHydro provides notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable after it receives the notice, to distribute to DR holders notice of the meeting. Because of these additional procedural steps involving the Depositary, the process for exercising voting rights may take longer for DR holders than for holders of Shares not represented by DRs, and RusHydro cannot assure DR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. DRs for which the Depositary does not receive timely voting instructions will not be voted.

The Depositary is only required to execute the voting instructions of the DR holders insofar as practicable and as permitted under applicable law. In practice, DR holders may not be able to require the Depositary to introduce proposals for the agenda of shareholders’ meetings or request that a shareholders’ meeting be called or nominate candidates for the Board of Directors or its internal audit commission. If DR holders wish to take such actions, they should request that their DRs be cancelled on a timely basis and take delivery of the underlying Shares and therefore become the owners of the underlying Shares on RusHydro’s share register. DRs for which no voting instructions have been received prior to the applicable voting deadlines will not be voted.

In addition, although regulations of the FSFM expressly permit the Depositary to split the votes with respect to the Shares represented by DRs in accordance with instructions from DR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all DR holders to vote the underlying shares in the same manner. DR holders may thus have significant difficulty in exercising voting rights with respect to the Shares represented by the DRs. RusHydro cannot assure holders and beneficial owners of DRs that they will receive notice of shareholders’ meetings to enable the timely return of voting instructions to the Depositary, receive notice to enable the timely withdrawal of Shares from DR facilities in respect of shareholder actions or be given the benefit of dissenting or minority shareholders’ rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See “Terms and Conditions of the Global Depositary Receipts — Voting Rights” and “Terms and Conditions of the American Depositary Receipts — Voting Rights” for a description of the respective voting rights of DR holders.

There may only be a limited trading market for the DRs, and, as a result, the price of the DRs may be highly volatile.

RusHydro’s GDR programme was only established in June 2008, and RusHydro is currently establishing its ADR programme. As a result, there has been limited time for an active, liquid trading market for the GDRs to develop, and there can be no assurance that such a market will develop following admission of the DRs to listing on the IOB. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the DRs does not develop, the price of the DRs may become more volatile and it may be more difficult to complete a buy or sell order for the DRs.

Moreover, the inability to convert the Shares into DRs due to the limitations imposed by RusHydro’s FSFM permission on the size of its depositary receipts programmes, which is limited to approximately 14.7% of the current share capital of RusHydro, may inhibit arbitrage transactions that would otherwise harmonise the trading price of the DRs on the IOB with that of the Shares on

the RTS and MICEX, which may result in uncertainties in price discovery and increase the volatility of the trading price of the DRs.

The trading prices of the DRs may be subject to wide fluctuations in response to a number of factors, including:

- variations in the Group's operating results and those of other power generation companies and those of other Russian companies;
- securities analysts and investors' expectations with respect to such results not being met by the Group;
- changes to the scope or pace of implementation of reform of the Russian electricity sector;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by the Group or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within the Group's business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

The Russian stock markets historically have experienced extreme price and volume fluctuations. Such market fluctuations could adversely affect the trading price of the DRs.

There are limits on the number of Shares that may be deposited in the GDR Programme or the ADR Programme.

RusHydro has received permission from the FSFM for up to 37.5 billion of its Shares, or approximately 14.7% of its current issued share capital, to be circulated abroad through depositary receipt programmes. As at the date of this Prospectus, the GDR programme accounted for approximately 5.6% of RusHydro's issued and outstanding Shares. There can be no assurance that RusHydro will be able to obtain approval for a deposit of a greater number of Shares in either the GDR Programme or the ADR Programme than RusHydro currently has approval for. As a result, it may not be possible to deposit Shares in the GDR programme or, if declared effective, the ADR Programme in order to receive GDRs or ADRs, as the case may be.

RusHydro has applied to the UKLA and the London Stock Exchange for a listing and admission to trading of up to 1,000,000,000 DRs. If this application is approved, the total number of Shares that may be deposited in the GDR programme and, if it is declared effective by the SEC, the ADR Programme will be limited, subject to the FSFM permission described above, to an aggregate of 100,000,000,000 Shares, unless RusHydro applies for the admission of further DRs. There can be no assurance that RusHydro would be able to make such an application or that such application would be approved by the UKLA or the LSE.

RusHydro may issue additional shares resulting in the dilution of Shares held by existing shareholders.

In March 2009, RusHydro completed the placement of approximately 9.99 billion Shares, or approximately 3.9% of the current share capital of RusHydro, to raise additional financing for the Group's investment programme. Almost all of the additionally issued Shares were purchased by the Russian Federation, resulting in a reduction of the combined stake of other shareholders in RusHydro from 39.63% to 38.05%. Although minority shareholders (other than holders of the DRs) had pre-emptive rights to acquire the additional Shares, very few of them decided to exercise their pre-emptive rights primarily because the Shares were offered at the nominal value of the Shares, which was significantly higher than the prevailing market price at that time. As at the date of this Prospectus, an additional 16 billion Shares are being placed by open subscription at a par value to raise additional financing for the Group's investment programme. DR holders do not have pre-emptive rights to acquire these shares. In accordance with the federal budget of the Russian Federation, it is expected that the Russian Federation will acquire 4,923,866,100 of the additional shares in July 2009. On 10 June 2009, the General Meeting of Shareholders of RusHydro also approved placement of an additional 19 billion Shares by open subscription for the purposes of raising additional financing for the Group's investment programme. The Russian Federation may acquire some of these Shares in exchange for shares held by the Russian Federation in various companies, including, primarily, subsidiaries of RusHydro. As at the date of this Prospectus,

RusHydro has not yet decided whether to provide pre-emptive rights in respect of these Shares to DR holders.

RusHydro may decide to issue additional shares in the future, including in order to raise financing from the Russian Federation for the Group's investment programme, which could result in the dilution of stakes held by existing shareholders. New shares may carry rights and preferences superior to those of the shares held by existing shareholders. Existing shareholders may not have, in some cases, pre-emptive rights with regard to new share issuances or may not have sufficient cash available to participate in new share issuances, even when existing shareholders are accorded the opportunity to invest or are otherwise willing to invest. Even if pre-emption rights were made available, the Depositary is not required to make them available to DR holders and may choose not to do so for regulatory or other reasons. New share issuances could have a material adverse effect on the economic interests of existing DR holders and the trading price of the DRs.

RusHydro may decide not to pay dividends in the future.

RusHydro's current dividend policy contemplates the payment of annual dividends of approximately 5% of its consolidated net profit calculated under RAS. Under Russian law, dividends are subject to a decision of shareholders, based on recommendations of the Board of Directors. In determining the amount of any dividends to propose to shareholders of RusHydro for future periods, the Board of Directors expects to take into account RusHydro's business prospects, capital expenditure, cash requirements, financial requirements and other business and regulatory considerations. See "Dividend Policy and Trading Volumes – Dividend Policy". Although RusHydro did declare dividends on a regular basis for the years 2006 and 2007, RusHydro did not declare a dividend for 2008 and may be unable or elect not to declare dividends in the future. For instance, the general shareholders' meeting, in which the Russian Federation currently has a majority of the voting rights, may decide to retain all profits earned or may decide against declaring dividends if it determines that the debt and equity capital raised by RusHydro appears to be insufficient for its investment programme. Should the general shareholders' meeting or the Board of Directors decide against declaring dividends, the trading price of the DRs may be adversely affected.

In the event that RusHydro does elect to pay a dividend on the Shares, it may decide to pay it in roubles or in foreign currencies. In the event that RusHydro decides to pay the dividend in roubles, current Russian legislation would permit such rouble funds to be converted into U.S. dollars by the Depositary under the relevant Deposit Agreement without restriction, although the ability to convert roubles into U.S. dollars would be subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of roubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, further development of such markets is uncertain.

U.S. holders may not be able to exercise their pre-emptive rights.

Generally, existing holders of shares of Russian open joint stock companies are in certain circumstances entitled to pre-emptive rights with respect to newly issued shares, pursuant to Russian law and the charter of RusHydro, as described in "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Rights Attaching to the Shares". U.S. DR holders may not be able to exercise pre-emptive rights with respect to any new equity issuances by RusHydro, unless a registration statement under the U.S. Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. RusHydro does not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the U.S. Securities Act would be available to enable such U.S. holders to exercise such pre-emptive rights and, if such exemption were available, RusHydro may not take the steps necessary to enable DR holders to rely on it.

Non-Russian resident DR holders may not be able to benefit from double tax treaties in relation to dividend income

Under Russian law, dividends paid to non-Russian resident holders of the DRs, both legal entities (or organisations) and individuals, will generally be subject to Russian tax at a rate of 15%. This tax may be reduced under the provisions of the relevant double tax treaty between the Russian Federation and the country in which the holder of the DRs is resident for tax purposes. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and because of the fact that under Russian law the depositary (not holders of

the DRs) is the legal holder of the shares, there are uncertainties in relation to taxation of dividends payable to holders of the DRs.

There have been several interpretations of the tax provisions from the Ministry of Finance addressing the beneficial ownership concept in Russia for double tax treaty purposes. These interpretations suggest that the Ministry of Finance will look to the beneficial owner of a DR instead of the nominal owner (such as a depositary) in determining whether the DR holder may benefit from the terms of a double tax treaty. However, these interpretations are not binding under Russian tax law and are subject to uncertainty and unpredictable positions of tax inspectors. As well there is no clearly established practical procedure for payers of income to withhold tax based on the tax residency of the beneficial owner.

Due to the above uncertainty in the beneficial ownership concept in Russia and because of the fact that the depositary (and not the holder of the DRs) is the legal holder of the shares under Russian law, there is a risk that the treaty relief may be unavailable to non-Russian resident DR holders. In addition, the Russian tax authorities may disallow application of a relief under the double tax treaty between the Russian Federation and the depositary's country of residence. Therefore, RusHydro may be unable to apply reduced rates provided by the relevant double tax treaty and will be obliged to withhold income tax at a maximum rate of 15% from dividend payments made to the depositary.

Moreover, from a practical perspective, it may not be possible for the depositary to collect residence confirmations from all DR holders and submit such information to RusHydro and, in addition, RusHydro may be unaware of the exact amount of income payable to each particular holder. In addition, there are uncertainties and practical difficulties for obtaining advance double tax treaty benefits for individuals. See "Taxation – Certain Russian Federal Tax Considerations".

Capital gains from the sale of DRs by non-Russian resident DR holders may be subject to Russian income tax potentially with no double tax treaty relief.

Under Russian tax legislation, gains arising from sale, exchange or other disposition of DRs that are circulated (i.e. listed and traded) on a foreign stock exchange by non-Russian resident holders that are legal entities (or organisations) fall outside the scope of Russian taxes provided that such transaction was made on a foreign stock exchange. Therefore, as long as the DRs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition of the DRs on the London Stock Exchange by non-Russian resident holders that are legal entities (or organisations) should not be subject to taxation in Russia and, therefore, to Russian withholding income tax.

Capital gains arising from the sale, exchange or other disposition of DRs by non-Russian resident holders that are legal entities (or organisations) are taxable in Russia if they did not arise from trades on a foreign stock exchanges and if more than 50% of the assets of RusHydro consist of immovable property located in Russia. In this case the aforementioned gains will be subject to a 20% withholding tax rate on the gross proceeds from the sale of the DRs less the cost of the acquisition and disposal costs of the DRs. Appropriate supporting documents in relation to such acquisition and disposal costs would need to be provided, and, in absence of documents confirming acquisition costs, the tax would be charged on the gross revenue.

Where DRs are sold by non-Russian resident holders of the DRs that are legal entities (or organisations) to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia), even if the resulting capital gain is considered a taxable Russian source income, there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Income from the sale, exchange or other disposition of DRs by a non-Russian resident holder that is an individual, if considered Russian source income, should be subject to tax at a rate of 30 % on the difference between the sale price and expenses incidental to the acquisition, storage and sale of DRs. In the absence of a clear definition of what constitutes income from sources within Russia in case of the sale of DRs, there is a certain risk that income from the disposal of DRs may be considered as received from a Russian source if the transaction is viewed as conducted in Russia. It should be noted that Russian tax legislation does not provide for clear guidance regarding the taxation of DRs. In the event that a disposal of DRs is treated by the Russian tax authorities as the disposal of property other than shares, the deductibility of acquisition costs may be challenged since such a deduction is not provided for non-Russian residents that are individuals.

A number of the existing double tax treaties concluded by the Russian Federation provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non-Russian resident individuals, and obtaining subsequent tax refunds may be time-consuming and can involve considerable practical difficulties. See “Taxation – Certain Russian Federal Tax Considerations”.

DR holders may have limited recourse against RusHydro and the Directors and senior management of RusHydro because RusHydro generally conducts its operations outside the United Kingdom and the United States and all of the current Directors and all senior management of RusHydro reside outside the United Kingdom and the United States.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation only if an international treaty providing for recognition and enforcement of judgments in civil or commercial cases exists between the Russian Federation and the country where the judgment is rendered or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. As at the date of this Prospectus, there is no treaty between either the United Kingdom or the United States, on the one hand, and the Russian Federation, on the other hand, providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. These limitations may deprive the DR holders of effective legal recourse for claims related to their investment in the DRs.

RusHydro’s presence outside the United Kingdom and the United States may limit the legal recourse of the DR holders against RusHydro and the Directors and members of the Management Board of RusHydro. RusHydro is incorporated under the laws of the Russian Federation. The Directors and members of the Management Board of RusHydro reside outside the United Kingdom and the United States, principally in the Russian Federation. All or a substantial portion of the assets of RusHydro and its Directors and members of its Management Board are located outside the United Kingdom and the United States, principally in the Russian Federation. As a result, DR holders may not be able to effect service of process within the United Kingdom or the United States upon RusHydro or its Directors and members of its Management Board, or to enforce U.K. or U.S. court judgments obtained against RusHydro or its Directors and members of its Management Board, in jurisdictions outside the United Kingdom or the United States, respectively. In addition, it may be difficult for DR holders to enforce, in original actions brought in courts in jurisdictions outside the United Kingdom or the United States, liabilities predicated upon U.K. securities laws or U.S. securities laws, respectively.

FORWARD-LOOKING STATEMENTS

This Prospectus contains “forward-looking statements” which relate to, without limitation, the Group’s plans, objectives, goals, strategies, future operations and performance, and anticipated developments in the power industry and the Russian and global economies. In addition, RusHydro may make forward-looking statements in future filings with the UKLA or Russian or other securities authorities or in written materials, press releases and oral statements issued by or on behalf of them. These forward-looking statements are characterised by words such as “anticipate”, “estimate”, “expect”, “believe”, “intend”, “plan”, “predict”, “project”, “may”, “will”, “should” and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or the Group’s actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements are inherently based on numerous assumptions regarding, among other things:

- changes in the political, social, legal or economic conditions in Russia;
- the effects of, and changes in, the policies of the Government, changes in the President and his administration, the Prime Minister, the Government and the relevant ministries and state agencies;
- the effects of Russian and international political events;
- changes in the prices of electricity and capacity;
- changes in the operating costs of the Group, including the costs of labour;

- changes in the ability of the Group to fund its future operations and capital needs through borrowing or otherwise;
- changes in the ability of the Group to successfully implement any of its business or financing strategies;
- changes in the ability of the Group to integrate its businesses, including recently acquired businesses, and to realise anticipated cost savings and operational benefits from such integration;
- changes in the ability of the Group to form strategic alliances or to implement acquisition expansion or divestiture plans including the ability to benefit from related cost savings synergies;
- the ability of the Group to obtain or extend the terms of the licences necessary for its business;
- the effects of regulatory and fiscal developments and legal proceedings;
- developments in, or changes to, the laws, regulations and Governmental policies governing the Group's businesses, including changes impacting environmental liabilities;
- inflation, interest rate and exchange rate fluctuations; and
- the success of the Group in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of assumptions is not exhaustive. When relying on forward-looking statements, each investor in DRs should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they are made. Accordingly, RusHydro does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws or under the Disclosure Rules and Transparency Rules, the Prospectus Rules or the Listing Rules of the FSA. RusHydro does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

THE ADR EXCHANGE

RusHydro signed the ADR Deposit Agreement on 30 June 2009 with The Bank of New York Mellon, as Depositary, under which ADRs may be issued from time to time. The Depositary has applied to the SEC for the ADR programme to be declared effective. If the SEC declares the ADR Programme effective:

- (a) RusHydro will apply (i) to the UKLA for the number of ADRs outstanding at the time of the Exchange to be admitted to the Official List; (ii) to the London Stock Exchange for those ADRs to be admitted to trading on the Regulated Market;
- (b) immediately prior to admission of the ADRs to the Official List and to trading on the Regulated Market, the Depositary will issue to each holder of Regulation S GDRs ADRs in an amount equal to the number of Regulation S GDRs held by the relevant holder as at the date of issuance of the ADRs, and such Regulation S GDRs shall be immediately cancelled upon such issuance of ADRs; and
- (c) RusHydro will request that the UKLA and the London Stock Exchange cancel (i) the listing of the Regulation S GDRs on the Official List and (ii) their admission to trading on the Regulated Market, respectively.

There can be no assurance that the SEC will declare the ADR Programme effective or that any ADRs will be issued to holders of Regulation S GDRs. Moreover, in the event that ADRs are issued, there is no assurance that RusHydro's application to admit those ADRs to the Official List and to trading on the Regulated Market will be approved by the UKLA and London Stock Exchange, respectively.

The following timetable identifies the key dates and time periods for the Exchange and admission to listing and trading of the ADRs, assuming that the ADR Programme is declared effective by the SEC. This timetable has been prepared based on the best estimates of RusHydro's management of when the following events will occur. The dates in the timetable are indicative only. There can be no assurance that these events will occur or that the timing of these events will be as described below. Delays may be caused by the granting of regulatory consents, actions by third persons, changes to Russian law or due to other circumstances.

3 July 2009	Admission hearings at the UKLA and London Stock Exchange for up to 1,000,000,000 DRs, consisting of 143,896,790 GDRs outstanding on or about the date of this Prospectus, and up to 856,103,210 additional DRs, in the form of GDRs or ADRs, to be issued from time to time against the deposit of Shares with the Depositary under the relevant Deposit Agreement, to be admitted to (i) the Official List; and (ii) trading on the Regulated Market, respectively.
6 July 2009	The DRs are listed on the Official List and admitted to trading on the Regulated Market.
15 July 2009	The ADR Programme is declared effective by the SEC. RusHydro distributes via RNS 20 business days' notice of the cancellation of (i) the listing of the Regulation S GDRs on the Official List and (ii) their admission to trading on the Regulated Market (the "De-listing").
10 August 2009	Admission hearings at the UKLA and London Stock Exchange for a listing of the number of ADRs outstanding at the time of the Exchange to be admitted to the Official List and to trading on the Regulated Market, respectively. RusHydro files a letter with the UKLA and the London Stock Exchange requesting the De-listing of the Regulation S GDRs on the next following business day.
11 August 2009	The Depositary issues, free of charge, to each holder of Regulation S GDRs, ADRs in an amount equal to the number of Regulation S GDRs held by the relevant holder as at the date of issuance of the ADRs, and such Regulation S GDRs are immediately cancelled upon such issuance of ADRs.

The ADRs are listed on the Official List and admitted to trading on the Regulated Market at 8 a.m. London time.

The De-listing of the Regulation S GDRs is effective from 8 a.m. London time.

SELECTED COMBINED AND CONSOLIDATED HISTORICAL FINANCIAL DATA

The table below shows certain selected combined and consolidated historical financial data of the Group as at and for the three years ended 31 December 2008, 2007 and 2006, prepared in accordance with IFRS. This financial data has been derived from the audited combined and consolidated financial statements of the Group and should be read in conjunction with the section of this Prospectus entitled “Operating and Financial Review” and the combined and consolidated financial statements of the Group, including the notes to those financial statements, included elsewhere in this Prospectus. As a result of the short operating history of the Group in its current form and the significant changes that have occurred since 2006 in the wholesale and retail electricity markets in which the Group operates, a comparative analysis of the financial reporting periods in the combined and consolidated financial statements may not provide an accurate comparison of financial results or a true indication of trends in the Group’s business. See “Risk Factors — Risks Associated with the Group and its Operations — The Group’s operational and financial history is short”.

Investors in DRs should read this selected financial data and other financial data below only as an introduction and should base any investment decision on a review of the entire Prospectus.

	Year ended 31 December		
	2006	2007	2008
	(amounts in RUB millions, except earnings/(loss) per share)		
Combined and consolidated income statement data			
Revenue	53,436.3	80,756.5	107,669.8
Operating expenses	(53,318.2)	(70,392.0)	(84,658.2)
Impairment reversal/(charge) related to property, plant and equipment	14,971.4	—	(32,552.8)
Operating profit/(loss)	15,089.5	10,364.5	(9,541.3)
Finance costs, net	(816.2)	(1,824.8)	(1,494.8)
Impairment of available-for-sale financial assets.....	—	—	(6,464.3)
Share of loss of associates and jointly controlled entities	—	(119.3)	(1,531.3)
Profit/(loss) before income tax.....	14,273.3	8,420.4	(19,031.7)
Total income tax charge	(6,649.6)	(2,949.4)	(448.6)
Profit/(loss) for the year	7,623.7	5,471.0	(19,480.3)
Attributable to:			
Shareholders of RusHydro	6,034.4	5,663.0	(19,955.4)
Minority interest	1,589.3	(192.0)	475.1
Earnings/(loss) per ordinary share for profit attributable to the shareholders of RusHydro – basic and diluted (in RUB)	0.0487	0.0381	(0.0925)

	Year ended 31 December		
	2006	2007	2008
	(amounts in RUB millions)		
Combined and consolidated cash flow data			
Net cash (used in)/generated by operating activities	(6,215.4)	17,034.3	27,620.7
Net cash used in investing activities	(21,379.3)	(35,883.0)	(33,022.6)
Net cash generated by financing activities.....	32,214.3	20,511.2	21,973.0
Increase in cash and cash equivalents	4,619.6	1,662.4	16,571.1

	As at 31 December		
	2006	2007	2008
	(amounts in RUB millions)		
Combined and consolidated balance sheet data			
Cash and cash equivalents.....	6,604.3	8,266.7	24,837.9
Total assets	169,006.3	313,546.4	426,371.1
Non-current debt	16,396.8	20,839.1	20,015.5
Current debt and current portion of non-current debt	5,186.2	3,178.0	3,376.9
Total liabilities	42,863.8	75,366.4	82,758.9
Total equity	126,142.5	238,179.9	343,612.2

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions, except margins in %)</i>		
Other financial data			
EBITDA ⁽¹⁾	19,381.8	18,702.7	(8,204.2)
EBITDA margin ⁽²⁾	36.3%	23.2%	(7.6)%
Adjusted EBITDA ⁽¹⁾	4,410.4	18,702.7	30,812.9
Adjusted EBITDA margin ⁽²⁾	8.3%	23.2%	28.6%
Operating profit margin ⁽²⁾	28.2%	12.8%	(8.9)%
Net profit margin ⁽²⁾	14.3%	6.8%	(18.1)%

(1) EBITDA, for any relevant period, represents profit for the period before depreciation and amortisation, finance income and costs and income tax expense.

Adjusted EBITDA is defined as EBITDA adjusted to exclude the effect of impairment reversal related to property, plant and equipment of RUB 14,971.4 million in 2006, impairment charge related to property, plant and equipment of RUB 32,552.8 million in 2008 and impairment of available-for-sale financial assets of RUB 6,464.3 million in 2008.

EBITDA and Adjusted EBITDA are presented because RusHydro considers them an important supplemental measure of the Group's operating performance and believes they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Group's industry. EBITDA and Adjusted EBITDA have limitations as an analytical tool, and they should not be considered in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of financing costs, which are significant and could further increase if the Group incurs more debt, on the Group's operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on the Group's operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's business which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect the Group's future cash requirements for these replacements.
- Other companies in the Group's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than RusHydro does, limiting its usefulness as a comparative measure.

RusHydro compensates for these limitations by relying primarily on its IFRS operating results and using EBITDA and Adjusted EBITDA only supplementally. See the Group's combined and consolidated statements of income and combined and consolidated statements of cash flows included elsewhere in this Prospectus.

EBITDA and Adjusted EBITDA are measures of the Group's operating performance that are not required by, or presented in accordance with, IFRS. EBITDA and Adjusted EBITDA are not measurements of the Group's operating performance or liquidity under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

(2) Margins are calculated as EBITDA, Adjusted EBITDA, operating profit or net profit, respectively, as a percentage of revenue.

The following table sets forth a reconciliation of EBITDA and Adjusted EBITDA to profit or loss for the years indicated:

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions)</i>		
Profit/(loss) for the year	7,623.7	5,471.0	(19,480.3)
Add:			
Depreciation charge.....	4,292.3	8,457.5	9,332.7
Finance costs, net	816.2	1,824.8	1,494.8
Income tax charge	6,649.6	2,949.4	448.6
EBITDA	19,381.8	18,702.7	(8,204.3)
Impairment (reversal)/charge related to property, plant and equipment	(14,971.4)	—	32,552.8
Impairment of available-for-sale financial assets	—	—	6,464.3
Adjusted EBITDA	4,410.4	18,702.7	30,812.9

CAPITALISATION

The following table sets forth the Group's consolidated capitalisation at 31 December 2008, on a historical basis and derived from audited combined and consolidated financial statements of the Group included elsewhere in this Prospectus. The following table should be read in conjunction with "Selected Combined and Consolidated Historical Financial Data", "Operating and Financial Review" and the audited combined and consolidated financial statements of the Group, including the notes to those financial statements, included elsewhere in this Prospectus.

	As at 31 December 2008
	<i>(Amounts in RUB millions)</i>
Cash and cash equivalents	24,837.9
Current debt and current portion of non-current debt	3,376.9
Non-current debt	20,015.5
Equity	
Share capital (245,014,059,191 issued and outstanding, each with a nominal value of 1 rouble) ¹	245,014.1
Treasury shares	(8,172.3)
Share premium	12,005.1
Merger reserve	(77,449.2)
Retained earnings and other reserves	171,238.2
Equity attributable to shareholders of RusHydro	342,635.8
Total capitalisation	390,866.1

(1) Following the registration with the FSFM of the results of a share issuance in March 2009, RusHydro's issued share capital increased to 255,014,018,667 ordinary shares.

BUSINESS

Overview

RusHydro believes that it is the biggest power generation company in Russia and the biggest publicly traded hydro generation company in the world in terms of installed capacity. As at 31 December 2008, the aggregate total installed capacity of the Group was 25,336.6 MW, which constituted approximately 12% of the total installed electricity generation capacity in Russia. The Group's core businesses are the generation of electricity and the sale of electricity and capacity on the Russian wholesale electricity market, as well as the retail market. The Group generated 80,273 million kWh of electric power and revenues of RUB 107.7 billion in 2008.

The Group's generation facilities are located in six of the seven Russian integrated energy systems across the entire territory of the Russian Federation. They include 50 HPPs (including Neporozhniy Sayano-Shushenskaya HPP which, with an installed capacity of 6,400 MW, is currently the largest hydro power plant in Russia in terms of installed capacity), 2 pumped storage hydro power plants, 2 geothermal power plants and 1 wind power plant. The Group sells its electricity and capacity on the wholesale electricity market and, through its electricity retail companies, on the retail electricity market. See "Industry Overview — Overview of the Electricity Market — Wholesale Electricity (Capacity) Market" and "Industry Overview — Overview of the Electricity Market — Retail Electricity Market". RusHydro's headquarters are in Moscow, Russia.

RusHydro is currently implementing nine investment projects and undertaking the technical upgrade and modernisation of its hydro generation facilities. As a result of these projects, RusHydro expects the installed electricity capacity of the Group to increase by approximately 1,928 MW by 2012. The Group further expects that the completion of these projects will create a further 3,064 MW of new installed capacity by 2015, although RusHydro has not yet taken a decision on the sources of funding for expenditure on these projects for periods after 2011.

RusHydro's investment programme also contemplates the construction of further three power generation facilities in the period 2012-2022 with a designed installed capacity of up to 1,490 MW. The construction of these facilities will depend, among other things, on RusHydro being able to attract financing on commercially acceptable terms. The Group's investment programme also contemplates the construction of a tidal power plant, a wind power plant and a geothermal power plant in the period 2012-2013, with a designed installed capacity of 12 MW, 30 MW and 12 MW, respectively, subject to the Government providing financing for these projects. See "Expansion Plans and Projects".

In addition to the generation and the wholesale sales of electricity and capacity, the Group is also engaged in the retail sales of electricity and capacity through the three electricity retail companies located in the Ryazan Region, the Krasnoyarsk Region and the Republic of Chuvashiya, respectively, that it acquired in 2008 and subsequently consolidated into OJSC RusHydro Energy Retail Company. RusHydro believes that the retail market is more stable and less competitive compared to the wholesale market, although the margins in the retail market have historically been considerably less than the margins in the wholesale market.

History and Development

Incorporation and formation of the initial group

RusHydro was incorporated on 26 December 2004 as a wholly-owned subsidiary of RAO UESR, then the state controlled power holding in Russia. As part of the incorporation, RAO UESR made contributions to RusHydro's charter capital in the first quarter of 2005 in the form of (i) a cash contribution of approximately RUB 101.8 million, (ii) a minority stake in OJSC Bureyskaya HPP, (iii) a stake of 100% minus one share in OJSC VoGEK MC (now called OJSC HydroOGK MC) and (iv) more than 50% of the voting shares in each of the following hydro generation companies:

- | | |
|---------------------------|--|
| • OJSC Volzhskaya HPP | • OJSC Kabbalk HPP |
| • OJSC Votkinskaya HPP | • OJSC Kamskaya HPP |
| • OJSC Boguchanskaya HPP | • OJSC Cascade of Verkhnevolzhskiy HPPs |
| • OJSC Zhigulevskaya HPP | • OJSC Nizhegorodskaya HPP |
| • OJSC Zaramagyskiye HPPs | • OJSC Saratovskaya HPP |
| • OJSC Zeyskaya HPP | • OJSC Sulakenergo |
| • OJSC Zelenchukskiy HPPs | • OJSC Neporozhniy Sayano-Shushenskaya HPP |

In the fourth quarter of 2006, as consideration for additional ordinary shares issued by RusHydro to RAO UESR, RAO UESR contributed to RusHydro's charter capital (i) a cash payment of approximately RUB 20 billion, (ii) more than 50% of voting shares in each of four hydro generation companies (OJSC Zagorskaya PSHP, OJSC Cheboksarskaya HPP, OJSC Stavropol Electricity Generation Company, OJSC Dagestan Regional Generation Company) and two research institutes (OJSC NIIES and OJSC B. Ye. Vedeneyev VNIIG), and (iii) various other assets, including minority stakes in OJSC Zelenchukskiye HPPs and OJSC Zaramagskiye HPPs, which were already controlled by RusHydro at that time.

In October 2007, RusHydro issued additional ordinary shares to RAO UESR, the Russian Federation and LLC ESOP (the operator of the RusHydro option programme) in exchange for (i) more than 40% in each of several hydro and geothermal generation companies (OJSC Zelenchukskiye HPPs, OJSC OP Verkhne-Mutnovskaya GeoPP, OJSC Geotherm, OJSC Northern Ossetia HGC), (ii) 49% in the research institute OJSC Energy Construction Complex of UES, (iii) minority stakes in a number of other hydro generation companies, and (iii) cash contributions of approximately RUB 25.38 billion.

Consolidation of subsidiaries

In accordance with RusHydro's strategy aimed at creating a consolidated operating company, on 9 January 2008, the nineteen hydro generation subsidiaries of RusHydro set forth below, together with OJSC Bureyskaya HPP, controlled by RAO UESR, and OJSC Kabardino-Balkarskaya HGC, controlled by OJSC Cascade of Nizhne-Cherekskiye HPPs, and CJSC EOZ were consolidated into RusHydro through a statutory merger:

- | | |
|---|---|
| • OJSC Volzhskaya HPP | • OJSC Cascade of Verkhnevolzhskiye HPPs |
| • OJSC Votkinskaya HPP | • OJSC Nizhegorodskaya HPP |
| • OJSC Dagestan Regional Generation Company | • OJSC Saratovskaya HPP |
| • OJSC Zhigulevskaya HPP | • OJSC Northern Ossetia HGC |
| • OJSC Zagorskaya PSHP | • OJSC Stavropol Electricity Generation Company |
| • OJSC Zeyskaya HPP | • OJSC Sulakenergo |
| • OJSC Zelenchukskiye HPPs | • OJSC Cheboksarskaya HPP |
| • OJSC Kabbalk HPP | • OJSC Neporozhniy Sayano-Shushenskaya HPP |
| • OJSC Kamskaya HPP | |

Upon the merger, these companies ceased to exist. To effect the merger, shares held by minority shareholders in these companies were converted into Shares in RusHydro at specified ratios reflecting the value of such companies' shares compared to the Shares in RusHydro.

Acquisition of OJSC Cascade of Nizhne-Cherekskiye HPPs and OJSC Irganayskaya HPP

In June 2008, RusHydro acquired a controlling stake in the hydro generation company OJSC Cascade of Nizhne-Cherekskiye HPPs from OJSC KabbalkEnergo for approximately RUB 2.13 billion. OJSC Cascade of Nizhne-Cherekskiye HPPs was merged into RusHydro on 1 July 2008. On the same date, OJSC Irganayskaya HPP, a hydro generation company controlled by RAO UESR, was also merged into RusHydro. Upon the merger of OJSC Irganayskaya HPP, RusHydro also obtained control over the following subsidiaries of OJSC Irganayskaya HPP: hydro generation company OJSC Kolymaenergo, electricity retail company OJSC KrasnoyarskEnergoSbyt, construction company OJSC ChirkeyGESstroy and research institute OJSC Lengidproekt.

Acquisition of electricity retail companies

In March 2008, in furtherance of its strategy to develop an electricity retail business, comprising the resale of electricity purchased on the wholesale electricity market to retail customers, an entity acting in the interest of RusHydro acquired from RAO UESR a 100% stake in OJSC Chuvashskaya Energy Retail Company and a controlling stake of 49% in OJSC Ryazanskaya Energy Retail Company for a cash consideration of RUB 650 million and RUB 630 million, respectively. In the second half of 2008, RusHydro subsequently acquired a further stake of 41.52% in OJSC Ryazanskaya Energy Retail Company from minority shareholders for a cash consideration of RUB 540.8 million. The third electricity retail subsidiary of RusHydro, OJSC KrasnoyarskEnergoSbyt, was previously a subsidiary of OJSC Irganayskaya HPP. RusHydro obtained control over OJSC

KrasnoyarskEnergoSbyt on 1 July 2008 through the merger of OJSC Irganayskaya HPP as described above.

Reorganisation of RAO UESR

Until 1 July 2008, RAO UESR was the principal shareholder of RusHydro, controlling approximately 77.93% of the Shares. On 1 July 2008, RAO UESR was reorganised and ceased to exist. In the reorganisation, the majority of RAO UESR's shareholding in RusHydro was distributed to the Russian Federation as the principal shareholder of RAO UESR, and the Russian Federation subsequently increased its direct shareholding, through its participation in further offerings of Shares, from 60.37% to 61.93%. As a result of the RAO UESR reorganisation, RusHydro received various assets and assumed various liabilities of RAO UESR, including a 21.71% stake in OJSC OGK-1. RusHydro expects to sell the stake in OJSC OGK-1 and use the sale proceeds to finance the Group investment programme. Any such sale, however, will depend on market conditions and other factors beyond RusHydro's control. In March 2009, RusHydro transferred its stake in OJSC OGK-1 into trust management by OJSC INTER RAO UES.

The Group

RusHydro is the holding company and main operating company of the Group. In addition to the subsidiaries described above, see "Listing and General Information" for a list of RusHydro's significant subsidiaries.

Competitive Strengths

RusHydro believes that it has a number of principal strengths that distinguish it from its competitors:

Ecologically clean power generation

Hydro resources are a renewable and environmentally-friendly energy source. RusHydro does not use hydrocarbon fuel in generating its electricity and produces far fewer air emissions than thermal power plants. Accordingly, RusHydro believes it faces lower environmental costs and expenses than its thermal competitors. It also appeals to customers who are increasingly inclined to choose clean energy providers.

The flexibility to increase output

The Group's hydro power plants are capable of increasing output within a very short timeframe. For example, it takes several minutes to start a hydro generator compared to several hours for a thermal power plant or even several days for a nuclear power plant. Accordingly, the Group has relatively greater flexibility to support peak loads. Currently, the Group does not receive any payments for its services relating to the support of peak loads. However, RusHydro expects that, if the system services market is introduced, it will be able to receive additional fees for these services.

The absence of a fuel component in production costs

RusHydro does not use a significant amount of hydrocarbon fuels in generating its electricity. As a result, RusHydro's energy prices are largely independent of changes in fuel prices, which provides a more stable cost base as compared with other power generation companies and helps enable RusHydro to offer long-term price guarantees to its customers.

The long useful life of HPPs

The useful life of hydro power plants is longer than the useful life of thermal power plants and nuclear power plants. Over the long term, this difference allows the Group to benefit from relatively lower capital expenditures.

Generation and retail business synergy

RusHydro benefits from a synergy between its electricity generation business and its electricity retail business. RusHydro believes that its retail business provides the opportunity of better access to end retail consumers together with increased control over customer credit.

Strategy

RusHydro's mission

RusHydro's key priorities are to use hydro resources efficiently, to ensure the reliability of the Russian energy system and to expand the use of renewable energy sources to benefit both shareholders and society as a whole. RusHydro seeks to be the leading world power company in renewable energy sources.

RusHydro's strategic goals

RusHydro's strategic goals are as follows:

- to promote growth in the value and capitalisation of RusHydro;
- to help ensure the reliability and safety of the Russian energy system; and
- to develop sustained growth in the production of electric power on the basis of renewable energy sources.

RusHydro has identified the following actions to achieve these strategic goals:

Enhancement of the efficiency and reliability of existing assets

RusHydro aims to maximise the efficiency and reliability of its existing assets through:

- the implementation of comprehensive, long-term programmes for technical rehabilitation and modernisation with the goal of increasing the installed capacity, flexibility and responsiveness of RusHydro's plants and equipment, further enhancing the automation of technological processes and implementing new technologies;
- the development of a system for the management of production assets, including the adoption of an equipment repairs system based on both the actual condition of equipment and its accrued operating time;
- the development of a system for the comprehensive automation of all technological processes, including systems for emergency response and quality control management;
- the improvement of sales activities, including access to export markets, in order to ensure additional loads for its generation assets; and
- the offering of proposals to the Government in developing laws, regulations, financial support schemes and investment incentives for the promotion of hydro power and renewable energy, as well as the development of electricity and capacity and the markets for system services and electricity derivatives, to help ensure favourable market conditions to allow the Group to use more fully its competitive advantages; in addition, the Group also puts forward proposals in relation to the principles governing the water regimes that apply to hydro power plants with the aim of increasing the output of its plants.

Implementation of projects for creating new power capacity in Russia

RusHydro seeks to implement commercially feasible projects for creating new power capacity in Russia using renewable energy sources. See "Expansion Plans and Projects".

Development of international activities

RusHydro operates in Russia but seeks to expand its presence in international markets. The main focus of RusHydro's potential international activities are:

- the export of electric power and capacity. Currently, the Group, through OJSC RAO East Energy Systems and OJSC INTER RAO UES, exports only minor amounts of electricity to China; however, the Group is examining the possibility of increasing its exports to China, as well as to neighbouring countries;
- the implementation of investment projects, including joint ventures with foreign partners. RusHydro is considering opportunities for constructing hydro power plants in countries that have the potential for hydropower development, primarily in countries in the CIS and South-East Asia;
- the provision of management, engineering and operational services to hydro-electric power stations overseas. RusHydro is currently providing engineering services in India, Kyrgyzstan and Tadjikistan, and it is participating in further tenders for such services in these countries. RusHydro anticipates that there might be demand for such services in Latin America and the countries of the CIS and South-East Asia;

- co-operation with foreign electric power, design and engineering companies;
- co-operation with international inter-governmental organisations and business associations. RusHydro is a member of the World Economic Forum, E8 (a non-profit international organisation, composed of ten leading electricity companies from the G8 countries, whose mission is to play an active role in global electricity issues), the World Energy Council and other organisations and associations;
- the exchange of experience, innovations and new technologies relating to the hydro-power industry and renewable energy sources with international companies.

Acquisition of power generation and complementary businesses

RusHydro seeks to acquire new business and assets to increase its power generation capacity or to develop businesses that support or are complementary to its core hydro-power generation business. Possible areas for acquisitions and business development may include:

- the acquisition of shares in renewable energy companies that are currently held by the Russian Federation;
- the development of RusHydro's own design, engineering and construction businesses to reduce RusHydro's dependence on third parties and the risk of a shortage of such services, and to be able to offer such services in domestic and overseas markets;
- the further development of the electricity retail business which, following the acquisition of three electricity retail companies in 2008 (OJSC Chuvashskaya Energy Retail Company, OJSC Ryazanskaya Energy Retail Company and OJSC KrasnoyarskEnergoSbyt), now represents a separate business segment of the Group;
- the participation in joint ventures to promote the construction of large industrial energy consumers in the areas that are suitable for hydro power generation, including the BEMA Project, a 50/50 joint venture with Rusal to construct the Boguchanskaya HPP and Boguchansk aluminium smelter. See "Expansion Plans and Projects — Facilities under construction — Boguchansk energy and metal industry association".

Overall corporate projects

RusHydro continuously seeks to improve the efficiency of its operations and the quality of its corporate governance standards. Current initiatives being implemented by RusHydro management include:

- the ongoing improvement of the organisational structure and management systems of RusHydro, including an increased use of technology and information in RusHydro's management processes;
- the improvement of its internal auditing and risk management systems;
- the implementation of human resource development programmes and projects, including the creation of a comprehensive system of staff training and the improvement of its incentive programmes; as part of these initiatives, RusHydro has established a corporate university for its employees and adopted internal standards for human resource management;
- the improvement of its environmental management system, including certification of compliance with international standards; and
- the development of public relations, investor relations and Government relations activities, including improving its communications with the market; in June 2008, RusHydro completed its corporate rebranding. In addition, RusHydro regularly meets with shareholders, investors and investment analysts and participates in investment conferences.

Principal Operations

Electricity Generation

The following map shows the geographical location of the Group's principal power generation facilities:



As at 31 December 2008, the aggregate total installed capacity of the Group was 25,336.6 MW. The Group's power plants are organised into several branches and subsidiaries on the basis of their geographical location. RusHydro divides its generation facilities into four large geographical regions: Centre, South, Siberia and the Far East. The table below shows key indicators of the Group's generation facilities by geographical region:

RusHydro branch (subsidiary where indicated) and power plants	Region and IES ⁽¹⁾	Number of power units		Number of power units with expired useful life		Year of launch
		<i>units</i>	<i>MW</i>	<i>units</i> <i>(% of total)</i>	<i>MW</i>	
CENTRE						
Volzhskaya HPP	Volgograd Region, Middle Volga IES	23	2,551	17 (74%)	1,955 (77%)	17:1958-1962; 6:1998-2008
Votkinskaya HPP	Perm Region, Urals IES	10	1,020	10 (100%)	1,020 (100%)	1961-1963
Zagorskaya PSHPP	Moscow Region, Central IES	6	1,200	—	—	1988-2000
Zhigulevskaya HPP	Samara Region, Middle Volga IES	20	2,320	16 (80%)	1,840 (79%)	16:1955-1957; 4:1996-2008
Cascade of Verkhnevolzhskiy HPPs ..	Yaroslavl Region, Central IES					
Rybinskaya HPP		6	346.4	4 (67%)	220 (63%)	4:1941-1950; 2:1998-2002
Uglichskaya HPP		2	110	2 (100%)	110 (100%)	1940
Total		8	456.4	6	330	
Saratovskaya HPP	Saratov Region, Middle Volga IES	24	1,360	24 (100%)	1,360 (100%)	1967-1970
Kamskaya HPP	Perm Region, Urals IES	23	519	7 (30%)	147 (28%)	7:1954-1956; 16:1997-2008
Nizhegorodskaya HPP	Nizhniy Novgorod Region, Middle Volga IES	8	520	8 (100%)	520 (100%)	1955-1957
Cheboksarskaya HPP	Republic of Chuvashiya, Middle Volga IES	18	1,370	—	—	1980-1987

RusHydro branch (subsidiary where indicated) and power plants	Region and IES ⁽¹⁾	Number of power units		Number of power units with expired useful life		Year of launch
		<i>units</i>	<i>MW</i>	<i>units</i> <i>(% of total)</i>	<i>MW</i>	
SOUTH						
Dagestan.....	Dagestan Republic, South IES					
Chirkeyskaya HPP.....		4	1,000	4 (100%)	1,000 (100%)	1974-1976
Chiryurtskaya HPP-1.....		2	72	2 (100%)	72 (100%)	1961-1963
Chiryurtskaya HPP-2.....		1	9	1 (100%)	9 (100%)	1960
Miatlinskaya HPP.....		2	220	—	—	1985-1986
Gergebilskaya HPP.....		5	17.8	2 (40%)	2.8 (16%)	2:1938, 3:1991-1993
Gelbakhskaya HPP.....		2	44	—	—	2006
Kurushskaya HPP.....		2	0.5	—	—	1986
Akhtynskaya HPP.....		3	1.8	—	—	1997
Agulskaya HPP.....		2	0.6	—	—	2006
Maginskaya HPP.....		2	1.2	—	—	2006
Total.....		25	1,366.9	9	1,083.8	
Irganayskaya HPP.....	Dagestan Republic, South IES	2	400	—	—	1998-2001
Kabardino-Balkarian.....	Kabardino-Balkariya Republic, South IES					
Akbashskaya HPP.....		2	1	—	—	1994
Small-Capacity HPP-3 on Baksan-Malka canal.....		3	3.5	—	—	2000
Baksanskaya HPP.....		3	25	3 (100%)	25 (100%)	1943-1962
Mukhol'skaya HPP.....		2	0.6	2 (100%)	0.6 (100%)	1960
Aushigerskaya HPP.....		3	60	—	—	2002
Sovetskaya HPP.....		2	2	2 (100%)	2 (100%)	1950
Total.....		15	92.1	7	27.6	
Zelenchukskiye HPPs.....	Karachaevo-Cherkessiya Republic, South IES	2	160	—	—	1999-2002
North-Ossetian.....	North Ossetiya-Alania Republic, South IES					
Ezminskaya HPP.....		3	45	3 (100%)	45 (100%)	1954-1957
Gizeldonskaya HPP.....		3	22.9	3 (100%)	23 (100%)	1934
Dzauzhikaunskaya HPP.....		3	9.2	3 (100%)	9.4 (100%)	1948
Bekanskaya HPP.....		2	0.5	2 (100%)	0.5 (100%)	1945-1951
Kara-Ur'sdonskaya HPP.....		2	0.6	—	—	2000-2001
Total.....		13	78.2	11	77.9	
Cascade of Kubanskiye HPPs.....	Stavropol Region, South IES					
HPP-1.....		2	37	2 (100%)	37 (100%)	1967-1968
HPP-2.....		4	184	4 (100%)	184 (100%)	1967-1968
HPP-3.....		3	87	3 (100%)	87 (100%)	1971-1972
HPP-4.....		3	78	3 (100%)	78 (100%)	1970
PSHPP.....		6	15.9	6 (100%)	15.9 (100%)	1968-1969
Sengileyevskaya HPP.....		3	15	—	—	1995-1996
Yegorlykskaya HPP.....		2	30	2 (100%)	30 (100%)	1962
Novotroitskaya HPP.....		2	3.7	2 (100%)	3.7(100%)	1953
Svistukhinskaya HPP.....		4	11.8	—	—	1992-1994
Total.....		29	462.4	22	435.6	
JSC Prometey (subsidiary):						
Gunibskaya HPP.....	Dagestan Republic, South IES	3	15	—	—	2005
JSC Karachaevo-Cherkessian Hydrogeneration Company ⁽²⁾ (subsidiary).....	Karachaevo-Cherkessiya Republic, South IES					
Sadovaya HPP.....		1	0.16	1 (100%)	0.16 (100%)	1952
Uchkulanskays HPP.....		1	0.8	1 (100%)	0.8 (100%)	1957
Eshkakonskaya HPP.....		1	0.6	—	—	1989
Total.....		3	1.56	2	0.96	
JSC Malaya Mezenskaya TPP (subsidiary): Kalmytskaya WPP ⁽³⁾	Kalmykiya Republic, South IES	1	1	—	—	2000

RusHydro branch (subsidiary where indicated) and power plants	Region and IES ⁽¹⁾	Number of power units		Number of power units with expired useful life		Year of launch
		units	MW	units (% of total)	MW	
SIBERIA						
Novosibirskaya HPP	Krasnoyarsk region, Siberia IES	7	455	7 (100%)	455 (100%)	1957-1959
Neporozhniy Sayano-Shushenskaya HPP	Krasnoyarsk Region, Siberia IES					
Neporozhniy Sayano-Shushenskaya HPP		10	6,400	3 (30%)	1,920 (30%)	1978-1985
Mainskaya HPP		3	321	—	—	1984-1985
Total		13	6,721	3	1,920	
FAR EAST						
Bureyskaya HPP	Amur Region, East IES	6	1,975	—	—	2003-2007
Zeyskaya HPP	Amur Region, East IES	6	1,330	5 (83%)	1,115 (84%)	1975-1980
JSC Kolymaenergo (subsidiary): Kolymskaya HPP	Magadan Region, East IES	5	900	—	—	1981-1996
JSC Geotherm (subsidiary)	Kamchatka Region, East IES					
Verkhne-Mutnovskaya GeoPP		3	12	—	—	1999
Mutnovskaya GeoPP-1		2	50	—	—	2002
Total		5	62	—	—	
GROUP TOTAL		275	25,336.6	154 (56%)	12,287.9 (48%)	

1. Integrated energy systems (“IESs”) are geographically separate energy systems. Electricity grids allow relatively free flows of electricity within an IES and only limited flows to or from other IESs. There are seven IESs in the Russian Federation; RusHydro’s generation facilities are located in six IES.
2. All of the three hydro power plants of JSC Karachaevo-Cherkessian Hydrogeneration Company were closed for reconstruction several years ago and do not produce electricity.
3. Kalmytskaya WPP is currently operating in a testing regime and therefore does produce electricity for sale at present.

See “Expansion Plans and Projects” for a discussion of RusHydro’s plans to expand its generation facilities.

Each geographical region has specific generation and consumption patterns.

- The Central group comprises generation facilities located in Central IES, Middle Volga IES and Urals IES, which are the regions with the highest energy consumption levels in the Russian Federation. RusHydro expects these regions to experience in the near future the largest energy deficit among all geographical regions.
- The South group comprises generation facilities located in the South IES, and is distinguished by a highly volatile pattern of generation and consumption due to an abnormally high level of household consumption, combined with limitations in the local grid. Although RusHydro does not estimate that the energy deficit in this geographical group will be as high as in the Central group, the on-going development of this geographical region in connection with the 2014 Olympic Games in Sochi is expected to lead to increased energy consumption in the region.
- The Siberia group comprises generation facilities in the Siberia IES. As a result of electricity grid limitations, the Siberia IES represents a separate pricing zone of the Russian wholesale electricity market, which means that spot prices in the Siberia IES are determined independently of the first pricing zone combining Central IES, North-West IES, Middle Volga IES, South IES and Urals IES. Compared to the first pricing zone, a larger share of electricity is generated in the Siberia IES by hydro power plants rather than thermal or nuclear power plants. For this reason, spot prices in the Siberia IES are usually lower than in the first pricing zone.
- The Far East group is the most isolated IES of the Russian Federation. Under current regulations, generators and large consumers in the East IES cannot participate in the wholesale electricity market, primarily because of limited competition due to the poor coverage of electricity grids in the Far East. Generators in the Far East, including the

Group's facilities in the region, sell electricity and capacity at regulated prices (tariffs). The Government does not have firm plans for the liberalisation of electricity and capacity prices in the Far East. The Far East is distinguished by a high level of household consumption, which results in volatile patterns of generation and consumption.

The table below shows a breakdown of production of the Group's generation facilities by geographical region for the periods indicated:

RusHydro branch (subsidiary where indicated) by geographical group	2006			2007			2008		
	Avg load factor, %	Electricity production, mln kWh	Percentage of total production, %	Avg load factor, %	Electricity production, mln kWh	Percentage of total production, %	Avg load factor, %	Electricity production, mln kWh	Percentage of total production, %
Centre									
Volzhskaya HPP	50.8	11,306.9	13.87	60.8	13,536.9	15.97	55.0	11,816.6	14.72
Votkinskaya HPP	26.6	2,379.1	2.92	35.6	3,176.3	3.75	33.3	2,975.5	3.71
Zagorskaya PSHP	18.3	1,919.4	2.36	18.4	1,934.2	2.28	18.4	1,933.8	2.41
Zhigulevskaya HPP	47.6	9,586.2	11.76	57.9	11,742.2	13.85	52.9	10,722.5	13.36
Cascade of Verkhnevolzhskiy HPPs	25.8	1,030.7	1.26	31.5	1,258.5	1.48	32.2	1,288.3	1.60
Saratovskaya HPP	45.9	5,468.0	6.71	52.3	6,226.0	7.34	48.2	5,743.8	7.16
Kamskaya HPP	41.2	1,806.1	2.22	49.5	2,212.0	2.61	50.5	2,264.7	2.82
Nizhegorodskaya HPP	28.9	1,316.3	1.62	35.9	1,636.9	1.93	37.0	1,685.0	2.10
Cheboksarskaya HPP	17.3	2,079.1	2.55	17.1	2,046.8	2.41	18.9	2,266.0	2.82
South									
Dagestan	30.8	3,558.8	4.37	30.2	3,555.8	4.19	28.5	3,410.4	4.25
Irganayskaya HPP	6.5	229.0	0.28	29.9	1,047.5	1.24	34.7	1,214.4	1.51
Kabardino-Balkarian ... Karachaevo- Cherkessian	46.6	376.1	0.46	46.7	376.9	0.44	47.5	383.1	0.48
North-Ossetian	16.3	228.4	0.28	26.8	375.9	0.44	29.8	418.1	0.52
Cascade of Kubanskiy HPPs	48.6	333.2	0.41	47.5	325.8	0.38	49.7	340.4	0.42
JSC Prometey (subsidiary)	40.3	1,634.1	2.01	47.5	1,493.9	1.76	36.1	1,463.5	1.82
JSC Prometey (subsidiary)	43.9	57.7	0.07	44.8	58.8	0.07	43.4	57.0	0.07
Siberia									
Novosibirskaya HPP	50.8	2,024.1	2.48	50.6	2,014.7	2.38	40.7	1,620.5	2.02
Neporozhniy Sayano- Shushenskaya HPP	45.6	26,817.7	32.91	35.3	20,764.5	24.49	33.9	19,983.9	24.89
Far East									
Bureyskaya HPP	34.5	3,034.5	3.72	31.2	3,286.0	3.88	22.0	3,351.1	4.17
Zeyskaya HPP	44.3	5,166.0	4.72	45.3	5,276.3	6.22	42.2	4,911.9	6.12
JSC Kolymaenergo (subsidiary)	26.1	2,057.6	2.52	25.6	2,016.1	2.38	25.5	2,011.3	2.51
JSC Geotherm (subsidiary)	74.9	406.6	0.50	76.2	413.6	0.49	75.7	411.3	0.51
TOTAL		82,815.6	100		84,775.6	100		80,273.1	100

The Group's internal use of electricity amounted to 398.7 million kWh, or 0.50% of its total production, in 2008, compared to 447.7 million kWh, or 0.53% of its total production, in 2007 and 440.3 million kWh, or 0.53% of its total production, in 2006.

Electricity retail

In 2008, RusHydro acquired three electricity retail companies, OJSC Chuvashskaya Energy Retail Company, OJSC Ryazanskaya Energy Retail Company and OJSC KrasnoyarskEnergoSbyt, which now represent a separate business segment of the Group. The electricity retail companies are participants in the wholesale markets where they buy electricity and capacity from electricity generators and resell the electricity to household and business retail consumers. Each of OJSC Chuvashskaya Energy Retail Company, OJSC Ryazanskaya Energy Retail Company and OJSC KrasnoyarskEnergoSbyt is currently considered as a "guaranteeing supplier" that is obliged to enter into electricity supply agreement with any requesting end consumer in its respective region.

The table below shows sales of electricity by the Group's electricity retail business for the periods indicated:

Electricity retail subsidiary	Region	Electricity retail sales, million kWh		
		2006	2007	2008
OJSC Chuvashskaya Energy Retail Company.....	Republic of Chuvashiya	4,997.8	5,043.0	4,756.0
OJSC Ryazanskaya Energy Retail Company.....	Ryazan Region	4,560.8	5,228.9	4,632.7
OJSC KrasnoyarskEnergoSbyt	Krasnoyarsk Region	43,696.5	35,045.3	36,304.5
Total		53,255.1	45,317.2	45,693.2

Total electricity retail sales by the Group increased by 0.8% to 45,693.2 million kWh in 2008, as compared to 2007, due to increased demand for electricity in the regions in which the Group's retailing segment operates. In 2007, total electricity retail sales were 45,317.2 million kWh, representing a 14.9% decrease on 2006, which was mainly due to large industrial consumers obtaining their electricity requirements from other suppliers and the wholesale electricity market. The Group expects a further decrease in its electricity retail sales in the Krasnoyarsk Region in 2009 as a result of the direct entry of Krasnoyarsk Aluminium Smelter into the wholesale electricity market.

Major consumers of the Group's electricity retail subsidiaries include companies in the Traktorny Zavody Group, The Enisei Krasnoyarsk Chemical Company, OJSC Krasnoyarsk Synthetic Rubber Plant, OJSC Mikhailovtsement, OJSC SUEK, LLC Gazprom Transgas Nizhny Novgorod and OJSC Russian Railways.

Other Operations

In addition to its electricity generation and electricity retailing businesses, the Group is also engaged in a number of other non-core businesses, including the design, engineering and construction of renewable energy facilities.

Customers

The following table shows the main consumers of electricity and capacity produced by the Group in 2008. Each of customers are wholesale electricity market participants purchasing electricity and capacity under Regulated Contracts or unregulated contracts:

Consumer	Share of the total amount of payments under Regulated Contracts and unregulated contracts (%)
Power generation and electrification OJSC Samaraenergo	10.3
OJSC Mosenergosbyt	5.6
OJSC Volgogradenergosbyt.....	5.4
Power generation and electrification OJSC Saratovenergo.....	4.5
OJSC Udmurtian Energy Sales Company	4.2
OJSC Chuvash Energy Sales Company	4.1
OJSC RUSAL Sayanogorsk Aluminum Plant.....	4.0
OJSC Stavropolenergosbyt.....	3.9
OJSC Omsk Energy Sales Company.....	3.3
LLC Rusenergosbyt.....	3.3
Total	48.4

Environmental Compliance

The Group is subject to various environmental laws and regulations in the course of its operations. See "Regulatory Matters — Environmental Regulation". Although the Group believes it is in material compliance with environmental laws and regulations, the Group does make payments

from time to time under the pay-to-pollute regime that operates in the Russian Federation. In 2008, the Group made these payments in the amount of approximately RUB 5.8 million. See “Regulatory Matters — Environmental Regulation — Pay-to-pollute”.

Research and Development

The Group has specialised subsidiaries which perform scientific research, development and design operations in the areas of electrical power engineering and hydro-technical construction. These subsidiaries include:

- OJSC Scientific-research Institute for power constructions (OJSC NIIES);
- OJSC VNIIG named B.E. Vedeneyev;
- JSC Lengidroproekt;
- JSC Moscow Region Institute Hidroproekt; and
- JSC Energy Construction Complex of UES.

These subsidiaries carry out research and development activities across the entire range of RusHydro’s operations, including:

- the execution of design work for each stage of the planning, construction and operation of HPPs;
- the development of the reliability and safety levels of the Group’s generation facilities, including the monitoring of compliance with applicable safety laws;
- the provision of scientific and technical support to new construction, repair and reconstruction work on the Group’s generation facilities; and
- the provision of scientific and technical support to particularly important or complex energy and industrial facilities of the Group.

The promotion of industrial health and safety at hydro power plants is a major goal of RusHydro’s research and technology policy. In order to help achieve this goal, RusHydro is assisting in the development of an industry-wide system of control over the condition of hydrotechnical facilities and measures for accident prevention.

The Group spent RUB 333.3 million and RUB 255.4 million on research and development in 2008 and 2007, respectively. Precise expenditure numbers for 2006 are not available, although research and development expenditure in 2006 was comparable to 2007.

Renewable energy resources

New Renewable Energy Development Strategy

RusHydro is an active participant in the development of renewable energy resources. In December 2008, the Management Board of RusHydro approved the principal terms of a new renewable energy development strategy, which focuses on the development of specific renewable energy sources, including wind, tidal, small hydro and geothermal, in the following areas of Russia: the Far East, the North Caucasus, the Volga Area and the North-Western Region. The implementation of this strategy is divided into two phases, and the main targets of these phases are set out below. See also “Expansion Plans and Projects — Investment projects under consideration” for a discussion of the Group’s plans to expand its renewable energy facilities.

Phase 1 – 2009 to 2012

In Phase 1, which is planned to be carried out through 2012, RusHydro will seek the development of:

- up to five pilot wind power or small hydro power plant projects;
- one pilot tidal power project with a target installed capacity of 12 MW;
- exploration programmes for small HPP dam sites;
- a binary unit project with a target installed capacity of 2.5 MW;
- a reheat steam use project; and
- a thermal pump use pilot project.

Phase 2 – 2013 to 2020

In Phase 2, which is planned to be carried out from 2013 to 2020, RusHydro will aim to increase the amount of its installed capacity that is attributable to renewable energy (other than large HPPs) to 4,000 MW.

In addition to this strategy, RusHydro has conducted research and development in the spheres of tidal, wind and geothermal energy:

Tidal Energy

RusHydro has established a testing site at Kislogubskaya Tidal Power Plant (“TPP”) in the Murmansk Region to develop new technologies for the construction of tidal power plant generation systems, and on-site testing of various materials in offshore and low temperature conditions.

An experimental floating generation unit, having a crosswise generator unit with a water wheel 5 metres in diameter and a capacity of 1,500 kW, has been installed at the Kislogubskaya TPP. A comprehensive programme of on-site testing of the generator unit and auxiliary equipment is currently being carried out.

RusHydro hopes that the equipment and designs tested at the Kislogubskaya TPP can be applied to the development and implementation of prospective tidal power plant projects such as Northern TPP in the Murmansk Region, Mezenskaya TPP in the Arkhangelsk Region, and Tugurskaya TPP in the Khabarovsk Region.

In 2008, RusHydro also completed a programme of scientific support work for its Tugurskaya TPP project with the aim of installing a floating construction platform and right-angle generator units.

Wind Energy

In October 2008, RusHydro began the implementation of a wind power project with the construction of the Far East Wind Power Plant on the Russky and Popov Islands in the south of the Russian Far East, with an expected installed capacity of 30 MW. In December 2008, the first stages of a construction investment feasibility study were completed. RusHydro hopes that the implementation of this project will encourage investment in projects for the construction of wind power plants and small-scale and unconventional power systems, thereby promoting the development and introduction of wind power-related technologies in Russia.

Geothermal energy

In 2008, RusHydro and its subsidiary, JSC New Binary Power Unit, began work on the implementation of a project to expand the existing Pajet Geothermal Power Plant in the Kamchatka Region by constructing a supplementary generation unit with a capacity of 2.5 MW using binary cycle technology. RusHydro hopes that the development and use of this innovative technology will lead to the installation of binary units at other geothermal power plants and increase the efficacy of using geothermal resources.

In 2008, RusHydro continued to survey the Mutnovskoye geothermal basin in the Kamchatka Region with the subsequent aim of designing and constructing new geothermal power capacity, using the flash vaporisation method at the existing Mutnovskaya GeoPP-1.

Litigation

RusHydro has been and continues to be the subject of legal proceedings and adjudications from time to time, as well as regulatory and administrative investigations, inquiries and actions regarding tax, labour, environmental and other matters, which, in the past, have resulted in damage awards, settlements or administrative sanctions, including fines.

RusHydro is not, nor has it been, involved in any governmental, legal or arbitration proceedings during the twelve months preceding the date of this Prospectus that may have, or have had in the recent past, significant effects on the financial position or profitability of the Group, and it is not aware that any such proceedings are pending or threatened.

Due to uncertainties in the legal and regulatory process, there can be no assurance that RusHydro will not become subject to proceedings or adjudications in the future that could have a material adverse effect on the Group, its results of operations or its financial condition. See “Risk Factors — Legal and Regulatory Risks and Uncertainties in the Russian Federation — Weaknesses relating to the Russian legal system create an uncertain environment for investment and business

activity” and “Risk Factors — Legal and Regulatory Risks and Uncertainties in the Russian Federation — Any increase or change in governmental regulation of the Group’s operations, or unlawful, selective or arbitrary governmental action, could restrict its ability to conduct its operations or to do so profitably”.

Insurance

The insurance industry is not yet well developed in Russia, and many forms of insurance protection that are common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. As a part of its insurance programme, the Group has entered into insurance contracts with various Russian insurance companies, including OJSC IC ROSNO, OJSC Ingosstrakh, OJSC Alfa-Strakhovanie and OJSC Kapital Insurance. Property insurance obtained by the Group covers all of its property on “against all risks” terms, including the risk of terrorist attacks, subject to limitations commonly used on the Russian insurance market. The Group also maintains health insurance and accident insurance for the majority of its employees, some insurance against construction risks and, in accordance with the requirements of Russian law, insurance against third-party liability for injuries and losses, including environmental damage, caused by its hazardous industrial facilities and hydrotechnical facilities. RusHydro also maintains director and officer insurance.

Employees

The number of personnel employed by the Group totalled 8,293 and 10,839 as at 31 December 2006 and 2007, respectively. As at 31 December 2008, the Group employed 10,530 employees, of which 6,215 were managers, technicians and specialists, and 4,315 were workers.

The Group provides various benefits to its employees, including health insurance, accident insurance, a private pension plan and a share option programme. See “Management and Corporate Governance — Remuneration of Directors and Management — Share Option Programme”.

EXPANSION PLANS AND PROJECTS

On 18 May 2009, the Board of Directors approved the Group's investment programme for 2009 and an estimated investment programme for 2010-2011. RusHydro currently intends to spend RUB 206,410 million under these programmes in 2009-2011, which are intended to provide for the commissioning of additional generation capacity of 1,930 MW by 2012. The programme includes investment projects under construction (RUB 143,912 million), investment projects under consideration (RUB 14,816 million) and technical rehabilitation and modernisation (RUB 44,585 million). RusHydro has not yet taken a decision on the financing requirements and sources of funding for periods after 2011. See "Operating and Financial Review – Liquidity and Capital Resources" for a discussion of the funding of this programme.

Facilities under construction

The following table shows a description of the main investment projects that are currently in progress. These projects also comprised the Group's principal investment projects in 2006, 2007 and 2008.

Investment project	Capacity (design/launched) (MW)	Expected Launch year	Estimated financing requirement for 2009-2011 (RUB millions) ⁽¹⁾	% complete as at 1 January 2009	Capacity expected to launch in 2009-2011 (MW)
Bureyskaya HPP	2,010/1,975	2003-2009	9,277	88%	35
Ust-Srednekanskaya HPP	570/0	2012-2016	9,621 ⁽³⁾	37%	—
Boguchansk energy and metal industry association, including:					
Boguchanskaya HPP	3,000/0	2010-2013	41,452	77%	1,667
Boguchansk aluminium smelter	—	2012	26,000	8%	—
Construction of the spillway of Neporozhniy Sayano-Shushenskaya HPP	—	2010 ⁽²⁾	5,395	55%	—
Irganayskaya HPP	400/400	2010	1,490	95%	—
Gotsatlinskaya HPP	100/0	2011	9,268 ⁽³⁾	17%	—
Zaramagskiye HPPs	357/0	2009, 2012	8,241	51%	15
Kashkhatau HPP	65/0	2010	2,043	85%	65
Zagorskaya PSHP-2	840/0	2012-2013	41,010	18%	—

1. The estimates of financing requirements for 2009-2011 are based on the assumption that there will be a decrease of 30%, as compared to 2008, in the costs of construction materials and other cost items. If this assumption is incorrect, financing requirements will increase proportionally. RusHydro has not yet taken a decision on the financing requirements and sources of funding for periods after 2011.

2. Estimated year of completion of construction.

3. The financing requirement includes expected contributions to the Group from the Russian federal budget of RUB 4,313 million and RUB 5,570 million for Ust-Srednekanskaya HPP and Gotsatlinskaya HPP, respectively.

Bureyskaya HPP

Bureyskaya HPP is located in the Amur Region and is expected to have an aggregate installed capacity of 2,010 MW, of which 1,975 MW had already been commissioned by the end of 2008. RusHydro expects to commission the remaining 35 MW in 2009.

The Bureyskaya HPP project has been implemented to supply electricity in the Far East Region and increase the reliability of electricity supply in this region, which is almost entirely isolated from the rest of the Russian energy system.

Ust-Srednekanskaya HPP

Ust-Srednekanskaya HPP in the Magadan Region has a design capacity of 570 MW, which is expected to be commissioned in four stages: 169 MW in 2012, 142.5 MW in 2014, 200.5 in 2015 and 58 MW in 2016. Once commissioned, Ust-Srednekanskaya HPP will supply electricity in the Magadan Region and, to a lesser extent, in the Sakha (Yakutia) Republic. Ust-Srednekanskaya HPP will form a cascade with Kolymskaya HPP and, as a result, is expected to increase the electricity output of

Kolymskaya HPP in the winter season. RusHydro also believes that the construction of Ust-Srednekanskaya HPP may contribute to the construction of new mining facilities in the region, which would add to its local customer base.

Boguchansk energy and metal industry association

In May 2006, RusHydro and Rusal entered into a co-operation agreement to establish a 50/50 joint venture for the creation of the Boguchansk energy and metal industry association, which comprises the completion and subsequent operation of the Boguchanskaya HPP, with an installed capacity of 3,000 MW, and the construction and subsequent operation of an aluminium production plant, with a capacity of 597,000 tonnes of aluminium per annum, in the Krasnoyarsk Region. Under the terms of the joint venture, RusHydro and Rusal are to share equally all expenses incurred in relation to, and all revenues derived from, the BEMA project.

Boguchanskaya HPP is intended to be launched in stages, with an expected commissioning of 1,000 MW in 2010 and 667 MW in 2011. Boguchanskaya HPP is intended to supply electricity to both Boguchansk aluminium smelter and other consumers in Siberia, and it is expected to help cover any winter peak power deficit in Siberia.

Due to the recent dramatic fall in aluminium prices resulting from the current global economic crisis, the parties ceased construction of the aluminium smelter, with the date of commissioning of the first phase postponed until 2012. However, it was decided to proceed with the construction of the Boguchanskaya HPP and commission its first phase in 2010. Rusal, which is reportedly facing financial problems, has delayed the financing of its part of the project. Some of Rusal's creditors have proposed that Rusal transfer its interest in the joint venture to RusHydro, although, as far as RusHydro is aware, no final decision has yet been taken. RusHydro believes that, even if the aluminium plant is not completed, there will be demand in that region for Boguchanskaya HPP's output of electricity. See "Risk Factors — Risks associated with the Group and its operations — RusHydro is relying to a great extent on a third party, United Company Rusal, in the implementation of its largest investment project".

Spillway of Neporozhniy Sayano-Shushenskaya HPP

RusHydro is constructing a spillway at Neporozhniy Sayano-Shushenskaya HPP in order to increase the reliability and safety of operation of Neporozhniy Sayano-Shushenskaya HPP, the Group's largest hydro power plant.

Irganayskaya HPP

Irganayskaya HPP is located in the Dagestan Republic. Irganayskaya HPP has an installed capacity of 400 MW and was largely constructed in 1998-2008, although the construction of auxiliary facilities at this hydro power plant are expected to be completed in 2010.

Gotsatlinskaya HPP

Gotsatlinskaya HPP will be located in the Dagestan Republic and has a design capacity of 100 MW. RusHydro is constructing this power plant to cover a power deficit in the South IES, as well in response to an instruction of the Russian Prime Minister to improve the infrastructure of the Dagestan Republic. RusHydro expects to launch the plant with an installed capacity of 100 MW in 2011, subject to receiving state financing for this project, and complete Gotsatlinskaya HPP in 2012.

Zaramagskiye HPPs

Zaramagskiye HPPs will comprise two hydro power plants in the North Ossetiya-Alania Republic with a design capacity of 15 MW and 342 MW, respectively. RusHydro expects to commission the 15 MW power plant in 2009. Zaramagskiye HPPs will supply electricity primarily in South IES, which currently has a power deficit.

Kashkhatau HPP

Kashkhatau HPP will be located in the Kabardino-Balkaria Republic, and, upon completion, will become a part of the cascade of Nizhne-Cherektskiye HPPs, which also includes two other of RusHydro's hydro power plants, Aushigerskaya HPP and Sovetskaya HPP. Within this cascade, RusHydro believes that Kashkhatau HPP should help prevent siltation at Aushigerskaya HPP, which may otherwise significantly decrease the electricity output of Aushigerskaya HPP. Kashkhatau HPP is also expected to be able to cover a power deficit in the South IES.

Kashkhatau HPP has a design capacity of 65.1 MW. RusHydro expects to complete this project in 2010.

Zagorskaya PSHPP-2

The Zagorskaya pumped storage hydro power plant-2 will be located in the Moscow Region with the principal purpose of increasing the reliability of energy supply in Moscow and the Moscow region. The design capacity of Zagorskaya PSHPP-2 is 840 MW.

Investment projects under consideration

In addition to the current facilities under construction, RusHydro's investment programme contemplates the potential construction of the facilities described below:

Investment projects	Design Capacity, (MW)	Potential Launch Year	Estimated Financing Requirements for 2009-2011 (RUB millions)
Hydro generation facilities			
South-Yakutia Hydro Power Complex	1,200	2015-2019	2,881
Nizhneyeniseisky Hydro Power Complex including			
Nizhny-Kureyskaya HPP	150	2013-2015	5,874
Zelenchukskaya HPP-PSHPP	140	2011	1,287
Renewable energy facilities			
Small HPPs	14	2010	84
TPP (Northern TPP in the Dolgaya Bay)	12	2012	3,074
Wind power (Far East WPP)	30	2012	1,045
Geothermal power (reheat steam unit of the Mutnovskaya GeoPP)	12	2012	571

RusHydro has not yet identified the exact sources of funding for these projects and they remain subject to both a feasibility study and the availability of financing on commercially acceptable terms.

Technical rehabilitation and modernisation

RusHydro has implemented a programme for technical rehabilitation and modernisation through 2020 with the aim of enhancing the efficient operation of the Group in the long term. The goals of the programme are to:

- achieve greater reliability, safety and economy of the Group's equipment through the replacement or refurbishment of equipment that has outlived its service life;
- improve the technical and economic specifications of the Group's HPPs to enable them to meet the demands of the competitive electric power market;
- reduce repair costs by:
 - the adoption of an equipment repairs system based on the actual condition of equipment and its accrued operating time through the introduction of diagnostic systems for controlling main and auxiliary equipment;
 - the replacement of old equipment with new equipment, with a longer repair cycle and requiring less periodic technical servicing, and the introduction of a servicing system for new and modernised equipment involving the use of manufacturers and service organisations; and
 - the comprehensive automation of all technological processes with an integral HPP management system.

RusHydro estimates that it will require RUB 44,585 million to fund its technical rehabilitation and modernisation programme for 2009-2011. RusHydro currently expects that this programme will provide for the commissioning of an additional 146 MW of installed capacity by 2012.

OPERATING AND FINANCIAL REVIEW

The following review of the Group's financial condition and results of operations includes forward-looking statements that involve risks and uncertainties. See "Risk Factors – Forward-Looking Statements" for a discussion of important factors that could cause the actual results to differ materially from the results described in the forward-looking statements contained in this Prospectus.

The following should be read in conjunction with the Group's combined and consolidated financial statements and the related notes included in this Prospectus. Investors should not solely rely on the information contained in this section. Selected combined and consolidated financial information in this section has been derived from the audited combined and consolidated financial statements of the Group without material adjustment, unless otherwise stated. The Group's combined and consolidated financial statements have been prepared in accordance with IFRS and under existing Group accounting policies.

As a result of the short operating history of the Group in its current form and the significant changes that have occurred since 2006 in the wholesale and retail electricity markets in which the Group operates, a comparative analysis of the financial reporting periods in the combined and consolidated financial statements may not provide an accurate comparison of financial results or a true indication of trends in the Group's business. See "Risk Factors – Risks Associated with the Group and its Operations – The Group's operational and financial history is short".

Overview

RusHydro believes that it is the biggest power generation company in Russia and the biggest publicly traded hydro power generation company in the world in terms of installed capacity. As at 31 December 2008, the aggregate installed capacity of the Group was 25,336.6 MW. In 2008, the Group generated 80,273.1 million kWh of electric power and revenues of RUB 107.7 billion. The comparable figures were 84,775.6 million kWh and RUB 80.8 billion for 2007, and 82,815.6 kWh and RUB 53.4 billion for 2006.

Business Segments and Intersegment Sales

In 2006 and 2007, the Group did not divide its business into segments, and all operations of the Group related to a single segment. Following the acquisition of three electricity retail companies in 2008, the Group organised its business into three major business segments:

- *Generation segment.* This segment includes the generation of electricity, mainly through the operation of hydrogeneration facilities, and its sale on the wholesale electricity market, largely at regulated tariffs.
- *Retailing segment.* This segment comprises the sale of electricity to consumers in the retail electricity market, largely at regulated tariffs. The retailing segment operates independently of the generation segment. The cost of sales of the retailing segment includes power purchased from third party companies and only a small part of electricity is purchased from the generation segment.
- *Unallocated segment.* This segment consists of numerous insignificant operations including research and development, construction, repair, and others.

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments are reflected in the performance of each business segment.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions through business combinations. Impairment loss provisions relate only to those charges made against allocated assets.

The table below shows the revenue and operating profit of the main segments of the Group for the periods indicated, as well as assets and liabilities as at 31 December 2008. See Note 3 to the Group's combined and consolidated financial statements included in this Prospectus for a summary of the basis of preparation of this data.

Year ended 31 December 2008					
Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
	<i>(amounts in RUB millions)</i>				
Revenue	63,676.5	40,016.6	3,976.7	—	107,669.8
Inter-segment revenue	584.3	—	1,386.7	(1,971.0)	—
Total Revenues	64,260.8	40,016.6	5,363.4	(1,971.0)	107,669.8
Segment result	21,684.1	1,617.8	(290.4)	—	23,011.6
Impairment (charge)/ release of property, plant and equipment ...	(32,589.3)	—	36.5	—	(32,552.8)
Operating (loss)/profit	(10,905.2)	1,617.8	(253.9)	—	(9,541.2)

Year ended 31 December 2007					
Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
	<i>(amounts in RUB millions)</i>				
Revenue	46,450.5	30,838.2	3,467.8	—	80,756.5
Inter-segment revenue	850.0	37.1	2,340.2	(3,227.3)	—
Total Revenues	47,300.5	30,875.3	5,808.0	(3,227.3)	80,756.5
Segment result	10,253.6	156.8	(45.9)	—	10,364.5
Operating profit/(loss)	10,253.6	156.8	(45.9)	—	10,364.5

Year ended 31 December 2006					
Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
	<i>(amounts in RUB millions)</i>				
Revenue	23,489.2	25,714.7	4,232.4	—	53,436.3
Inter-segment revenue	509.4	—	1,752.7	(2,262.1)	—
Total Revenues	23,998.6	25,714.7	5,985.1	(2,262.1)	53,436.3
Segment result	222.1	42.3	(146.3)	—	118.1
Impairment release of property, plant and equipment	14,942.7	—	28.7	—	14,971.4
Operating profit/(loss)	15,164.8	42.3	(117.6)	—	15,089.5

Assets and liabilities as at 31 December 2008					
	Generation	Retailing	Unallocated	Consolidation adjustment	Total
	<i>(amounts in RUB millions)</i>				
Segment assets	396,814.8	3,391.5	8,306.8	—	408,513.1
Inter-segment balances	18,670.0	—	5,672.3	(24,342.3)	—
Total segment assets	415,484.8	3,391.5	13,979.1	(24,342.3)	408,513.1
Investments in associates and jointly controlled entities	11,457.0	—	4,342.2	—	15,799.2
Current and deferred tax assets	—	—	—	—	2,058.8
Total assets	—	—	—	—	426,371.1
Segment liabilities	18,009.6	2,107.2	4,068.5	—	24,185.3
Inter-segment balances	5,672.3	—	18,670.0	(24,342.3)	—
Total segment liabilities	23,681.9	2,107.2	22,738.5	(24,342.3)	24,185.3
Current and deferred tax liability	—	—	—	—	35,181.2
Non-current and current debt	—	—	—	—	23,392.4
Total liabilities	—	—	—	—	82,758.9

The results of operations of the retailing segment of the Group are primarily affected by electricity prices in the unregulated sector of the wholesale electricity market, from which the retailing segment purchases electricity for re-sale to its customers. In addition to electricity prices, the results of operations of the generation segment are also significantly affected by seasonal factors, including, primarily, water levels. See “ – Certain Factors Affecting the Group’s Results of Operations”.

Certain Factors Affecting the Group's Results of Operations

A number of external factors affect the results of operations of the Group, including electricity prices, seasonality and Russian macroeconomic trends. See the discussion of the Group's results of operations for the years ended 31 December 2008, 2007 and 2006 for a description of the extent to which those external factors have affected the Group's results of operations. See also "Risk Factors".

Electricity prices

The price at which the Group sells electricity is critical to its results of operations. In the periods under discussion, the Group was required to sell a substantial majority of its electricity and capacity at regulated tariffs. The electricity sector in Russia is currently undergoing comprehensive process of restructuring and gradual liberalisation, which has affected and will continue to affect the electricity tariffs and RusHydro's realised prices for electricity. See "Industry Overview – Sector Reform".

Prior to 1 January 2008, the FST calculated regulated electricity tariffs on an annual basis for each of the Group's plants on the basis of a "cost plus" method. In practice, social and political considerations affected tariff decisions, causing significant delays in tariff determinations and tariff increases that were lower than necessary to compensate the Group for cost increases. To the extent that the Group was required to sell its output of electricity at regulated tariffs, it did not have any significant incentive to reduce operating costs since any such reduction would be offset by a reduction in its regulated tariffs. On 1 January 2008, the "costs plus" method was replaced by a costs indexation formula determined by the FST based on, among other things, the forecasted level of inflation, changes in the tax regime and calculated by reference to costs (in accordance with RAS) agreed with the FST for 2007. As a result, to the extent that the Group is able to implement costs savings relative to its 2007 costs levels, such savings will no longer be offset by a corresponding reduction in tariffs and should be reflected in the Group's operating margin. The Group has prepared and started implementing plans for each of its power plants to reduce fixed and variable costs.

Prior to 1 September 2006, the Group was permitted to sell in the free trade sector a volume of electricity that was equal to 15% of the production volume that the Group had agreed with the System Operator, and the Group sold the balance of its output at regulated tariffs as described above. Prices in the free trade sector did not necessarily reflect a genuine market price since wholesale purchasers had the right under the old rules to obtain all of their electricity requirements at regulated prices if such prices were lower than prices in the free trade sector. On the other hand, the market rules induced generators to trade in the free trade sector because 15% of their fixed costs were not covered by capacity tariff payments.

These potential sources of price distortions were addressed when the former free trade sector was replaced by an unregulated sector on 1 September 2006 under the New Wholesale Market Rules. The unregulated sector comprises unregulated bilateral agreements, the "one-day-ahead" market and the balancing market, in which generators can generally trade electricity at prices determined by supply and demand in the wholesale electricity market. In particular, generation companies became entitled under the new capacity payment structure to receive payment for 100% of their available capacity, as compared to 85% for periods prior to 1 September 2006.

The volume of output of electricity that may be sold at unregulated prices, determined by reference to the planned 2007 output level, is scheduled to be increased from 50-55% in the second half of 2009, gradually reaching up to 100% by January 2011 (except for residential consumption). In addition, any output in excess of the limits approved by the FST, as well as output produced by generation plants commissioned after 2007, may be sold at unregulated prices. RusHydro believes that, as a result of the implementation of the New Wholesale Market Rules, an increasing portion of its revenue will be generated from sales of electricity at unregulated prices. In 2006-2008, unregulated prices were generally higher than the Group's tariffs.

The New Wholesale Market Rules do not currently contemplate the liberalisation of electricity and capacity prices in the Far East, where the Group has several generation facilities, including Bureyskaya HPP, Zeyskaya HPP and Kolymskaya HPP. It is likely that electricity and capacity prices in the Far East will not be liberalised until the related grid infrastructure is developed enough to create a competitive market in that region. Until that time, the Group will be required to sell electricity and capacity produced by its generation facilities in the Far East at regulated tariffs.

In 2008, the Group's sales of electricity in the unregulated sector totalled RUB 17,797 million, as compared to sales in the regulated sector of RUB 9,383 million and retail sales of RUB 37,709

million. The Group presents its revenues and expenses from the sale and purchase of electricity under the sub-line items “revenues – sales of electricity (capacity)” and “operating expenses – purchased electricity (capacity)”, respectively. The Group currently expects that it will continue to develop its participation in trading in the unregulated electricity market in line with the continuing liberalisation of the Russian electricity market.

Seasonality

Hydrogeneration business is heavily influenced by weather conditions and only certain regions of Russia experience enough precipitation to feed the river systems that provide sufficient waterflow for hydro power plants. Therefore, the electricity volume that can be produced by the Group depends significantly on the available waterflow in the river systems which supply its generation facilities. For example, in 2008 the waterflow at Novosibirskaya HPP, Neporozhniy Sayano-Shushenskaya HPP and Bureyskaya HPP was only 69%, 82% and 76%, respectively, of the average historical level, which contributed to a reduction of electricity output by the Group compared to previous years. In addition, the electricity output at hydro power plants varies significantly during the year. The output is usually higher in spring-summer due to higher water flows through hydro power plants and is lower in autumn-winter. This factor is partially offset by a converse change in electricity spot market prices, which are usually lower in spring-summer, due to the higher share of electricity produced by hydro power plants in that period, and higher in autumn-winter.

The demand for electricity is also subject to seasonal variations in Russia, with demand typically increasing during the colder and darker conditions of the winter months.

Russian macroeconomic trends

The Group’s operations are based exclusively in Russia, and, in the periods under discussion, the Group derived all of its revenues from sales to customers in Russia. As a result, Russian macroeconomic trends, including, until recently, the overall growth in the economy since the 1998 financial crisis, continue to have a significant influence on the performance of the Group.

The table below summarises certain macroeconomic indicators relating to the Russian economy in 2006, 2007 and 2008 and average annual changes in electricity consumption in 2006, 2007 and 2008:

	Year ended 31 December		
	2006	2007	2008
GDP growth (%) ⁽¹⁾	7.7	8.1	5.6
Consumer price index growth (%) ⁽²⁾	9.0	11.9	13.3
Unemployment rate (%) ⁽¹⁾	6.7	5.6	6.3
Growth/(decline) in per capita electricity consumption (%) ⁽³⁾	4.9	(4.4)	5.7

1. Source: Rosstat.

2. By way of comparison, the consumer price index growth in the first four months of 2009 (on a non-annualised basis) was 6.2%.

3. Source: The System Operator.

The general economic recovery in Russia up to 2008 following the debt default of 1998 contributed to an increase in demand for electricity. According to Rosstat, total electricity consumption in Russia increased by 19.8% from 827.2 billion kWh in 1998 to 992.6 billion kWh in 2008.

However, the deterioration of the Russian economy and a forecast decrease of GDP may affect electricity consumption. Accordingly, the Government could revise its forecast of social-economic development for 2009-2012, which could result in changes to the terms of the liberalisation of wholesale market and plans for electricity tariff indexation. Any change to the terms of the wholesale market liberalisation or the plans for electricity tariff indexation may influence the Group’s revenues, as well as having a potential impact on management’s cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, as at 31 December 2008, management reflected revised estimates of expected future cash flows in its impairment assessments of accounts receivables, property, plant and equipment, available-for-sale financial assets, investments in associates and jointly controlled entities.

Inflation in Russia was 9.0% in 2006, 11.9% in 2007 and 13.3% in 2008. Russian inflation has generally not had a material impact on the Group’s results of operations, although the Group tends

to experience inflation-driven increases in some of its costs, such as salaries, that are linked to general price levels in Russia. The general macroeconomic climate also impacts on some of the Group's other costs. For example, the cost of certain construction materials decreased in the months following the economic downturn in late 2008.

Combined and Consolidated Financial Results Overview

The table below sets forth a summary of the Group's combined and consolidated financial results for the years ended 31 December 2008, 2007 and 2006:

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions)</i>		
Revenue.....	53,436.3	80,756.5	107,669.8
Operating expenses.....	(53,318.2)	(70,392.0)	(84,658.2)
Impairment reversal/(charge) related to property, plant and equipment	14,971.4	—	(32,552.8)
Operating profit/(loss).....	15,089.5	10,364.5	(9,541.2)
Finance costs, net.....	(816.2)	(1,824.8)	(1,494.8)
Impairment of available-for-sale investments	—	—	(6,464.3)
Share of loss of associates and jointly controlled entities	—	(119.3)	(1,531.3)
Profit/(Loss) before income tax	14,273.3	8,420.4	(19,031.6)
Total income tax charge	(6,649.6)	(2,949.4)	(448.6)
Profit/(Loss) for the period	7,623.7	5,471.0	(19,480.2)
Attributable to:			
Shareholders of OJSC RusHydro	6,034.4	5,663.0	(19,955.3)
Minority interest	1,589.3	(192.0)	475.1
Earnings per ordinary share for (loss)/ profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian roubles per share).....	0.0487	0.0381	(0.0925)
Weighted average number of shares outstanding – basic and diluted	124,027,549	148,502,176	215,648,425

Results of Operations for the Years Ended 31 December 2008 and 2007

Revenues

The Group derives its revenues primarily from the sale of electricity (capacity). The Group also derives some revenues from services that are provided to third parties by subsidiaries, including repairs works and scientific research. The table below shows a breakdown of revenues from electricity and these other services for the periods indicated. Revenues from electricity includes revenues from sales by the Group's retailing segment.

	Year Ended 31 December		
	2007	2008	Change (%)
<i>(amounts in RUB millions, except percentages)</i>			
Sales of electricity (capacity)	76,494.3	102,673.9	34.2
Other revenue	4,262.2	4,995.9	17.2
Total revenue	80,756.5	107,669.8	33.3

Revenues increased by RUB 26,913.3 million, or 33% to RUB 107,669.8 million in 2008 from RUB 80,756.5 million in 2007, largely as a result of higher electricity revenues for the reasons discussed below.

Sales of electricity (capacity)

Electricity revenues include revenues from the sale of both electricity and capacity. Revenues from sales of electricity (capacity) increased by RUB 26,179.6 million, or 34%, to RUB 102,673.9 million in 2008 from RUB 76,494.3 million in 2007. The increase in revenues resulted from higher tariffs (including RUB 16,772.8 million that was attributable to a special purpose tariff that, beginning in 2007, was permitted in order to fund part of RusHydro's investment programme), the sale of additional capacity under unregulated contracts following the launch of the capacity market on 1 July 2008 and an increased share of sales of electricity, in accordance with the liberalisation of the electricity market, at unregulated prices on the day-ahead and balancing markets, as well as due to increased income from the Group's retailing segment.

The tables below show a breakdown of revenues from electricity and capacity for the Group for the periods indicated, and a breakdown of sales between (i) the regulated sector and (ii) sales at unregulated prices.

	Year Ended 31 December		
	2007	2008	Change (%)
<i>(amounts in RUB millions, unless otherwise stated)</i>			
Revenue from electricity generation and capacity sales	76,494.3	102,673.9	34.2
Comprising:			
Electricity ⁽¹⁾	50,500.8	64,889.4	28.5
Capacity	25,994.5	37,784.5	45.4
Volume			
Electricity (kWh millions) ⁽¹⁾	150,494.7	145,427.2	(3.4)
Capacity (MW)	29,002.0	26,880.0	(7.3)
Average Realised Price (RUB/MWh)⁽²⁾	508.3	706.0	38.9

1. Includes re-sales of purchased electricity, as well as sales of electricity generated by the Group.

2. Total revenue from electricity and capacity sales divided by volume of electricity sold.

Unaudited

	Year Ended 31 December 2007				Year Ended 31 December 2008			
	Regulated Market	Unregulated Market	Retail Sales	Total	Regulated Market	Unregulated Market	Retail Sales	Total
<i>(amounts in RUB millions)</i>								
Revenue from electricity and capacity sales	34,554.0	11,908.0	30,032.3	76,494.3	44,715.0	19,033.0	38,925.2	102,673.9
Comprising:								
Electricity	9,712.0	11,908.0	28,880.8	50,500.8	9,383.0	17,797.0	37,709.4	64,889.4
Capacity	24,842.0	—	1,151.5	25,993.5	35,332.0	1,236.0	1,215.8	37,784.5

The average realised price in 2007 was lower than in 2008 largely as a result of the continuing liberalisation of the Russian wholesale electricity market.

The Group sells its electricity on the Russian wholesale electricity market, in which, subject to grid availability, the Group may transmit electricity in the first and second pricing zones and the Far East non-pricing zone beyond the geographical region or the IES in which the Group's generation facilities are located. As a result, the Group operates its electricity generation facilities on a unified basis and seeks to allocate production levels between its facilities in its four operating regions on the basis of available capacity and production efficiency. Trends in electricity production and revenues generated by an individual operating region of the Group are not therefore necessarily indicative of any particular factors affecting such operating region or trends in the Group's business as a whole.

Operating expenses

The table below shows the Group's operating expenses for the periods indicated:

	Year Ended 31 December				
	2007		2008		
		Percentage of Total Operating Expenses		Percentage of Total Operating Expenses	
	Amount		Amount		Change (%)
	(amounts in RUB millions, except percentages)				
Purchased electricity (capacity)	26,574.5	37.8	34,661.0	40.9	30.4
Electricity distribution expenses	10,993.1	15.6	12,415.4	14.7	12.9
Depreciation of property, plant and equipment.....	8,457.5	12.0	9,332.7	11.0	10.3
Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)	6,181.8	8.8	8,132.1	9.6	31.5
Third parties services, including:					
Services of SO-CDU, NP ATS, CFR, RAO UESR ⁽¹⁾	2,494.9	3.5	2,416.7	2.9	(3.1)
Repairs and Maintenance	1,939.2	2.8	2,089.4	2.5	7.7
Services of subcontracting companies.....	1,134.8	1.6	1,369.4	1.6	20.7
Consulting, legal and information expenses.....	1,007.0	1.4	697.7	0.8	(30.7)
Insurance cost	515.4	0.7	601.3	0.7	16.7
Security expenses.....	475.3	0.7	552.5	0.7	16.2
Rent.....	510.5	0.7	526.1	0.6	3.1
Transportation expenses	278.2	0.4	330.4	0.4	18.8
Other third parties services	1,615.6	2.3	1,068.3	1.3	(33.9)
Taxes other than income tax.....	3,176.9	4.5	5,145.3	6.1	62.0
Other materials	1,324.0	1.9	1,367.0	1.6	3.2
Write-off and charge of impairment of accounts receivable	505.3	0.7	1,087.8	1.3	115.3
Water usage expenses	855.0	1.2	854.7	1.0	0.0
Social charges	584.2	0.8	327.7	0.4	(43.9)
Loss on disposals of property, plant and equipment, net	164.4	0.2	303.3	0.4	84.5
Other expenses.....	1,604.4	2.4	1,379.4	1.5	(14.0)
Total operating expenses	70,392.0	100	84,658.2	100	20.3

1. "SO-CDU" refers to the System Operator; "NP ATS" refers to OJSC Trade System Administrator (the "Trade System Administrator"); and "CFR" refers to CJSC Centre of Financial Settlements. See "Industry Overview".

Total operating expenses increased by RUB 14,266.2 million, or 20.3%, to RUB 84,658.2 million in 2008 from RUB 70,392.0 million in 2007. The increase in operating expenses was primarily attributable to an increase in purchased electricity, as well as an increase in electricity distribution expenses attributable to the retailing segment.

Purchased electricity (capacity)

In 2008, purchased electricity (capacity) expenses increased by RUB 8,086.5 million, or 30.4%, to RUB 34,661.0 million from RUB 26,574.5 million in 2007. This increase was largely attributable to higher prices for the electricity that the Group purchased on the day-ahead market to enable it to fulfil its supply obligations to customers on the regulated market, as well as on the balancing market, and an increase in the volume and prices of electricity purchased for re-sale by the Group's retailing segment.

Electricity distribution expenses

In 2008, electricity distribution expenses increased by RUB 1,422.3 million, or 12.9%, to RUB 12,415.4 million from RUB 10,993.1 million in 2007. This increase was primarily due to an increase in the volume of sales of electricity by the Group's retailing segment, in response to increased electricity consumption in Russia, as well as higher distribution tariffs.

Depreciation of property, plant and equipment

In 2008, the depreciation cost for property, plant and equipment increased by RUB 875.2 million, or 10.3%, to RUB 9,332.7 million from RUB 8,457.5 million in 2007. This increase was primarily due to the commissioning of newly-constructed property, plant and equipment.

Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)

In 2008, employee benefit expenses increased by RUB 1,950.3 million, or 31.5%, to RUB 8,132.1 million from RUB 6,181.8 million in 2007. This increase was primarily due to an increase of approximately 17% in base salary levels as a result of indexation, as well as costs resulting from increased participation in the Group's employee pension and option programmes.

Third parties services, including:

Services of subcontracting companies

Services of subcontracting companies increased by RUB 234.6 million, or 20.7%, to RUB 1,369.4 million in 2008 from RUB 1,134.8 million in 2007. This increase was largely attributable to an increase in payments to construction sub-contractors.

Consulting, legal and information expenses

Consulting, legal and information expenses decreased by RUB 309.3 million, or 30.7%, to RUB 697.7 million in 2008 from RUB 1,007.0 million in 2007. This decrease was largely attributable to a reduction in services that were required in connection with the completion of the reorganisation of the Group as part of the reform of RAO UESR.

Other third parties services

Other third party services decreased by RUB 547.3 million, or 33.9%, to RUB 1,068.3 million in 2008 from RUB 1,615.6 million in 2007. Costs were higher in 2007 largely as a result of expenses incurred in connection with the preparation of a water flow zone at Bureyskaya HPP.

Taxes other than income tax

In 2008, taxes other than income tax increased by RUB 1,968.4 million, or 62.0%, to RUB 5,145.3 million from RUB 3,176.9 million in 2007. This increase was primarily due to an increase in property tax due to a revaluation of property at market prices in accordance with RAS for the purpose of merger.

Write-off and charge of impairment of accounts receivable

Write-off and charge of impairment of accounts receivable increased by RUB 582.5 million, or 115.3%, to RUB 1,087.8 million in 2008 from RUB 505.3 million in 2007. The increase was primarily attributable to an increase in provisions for bad debts in relation to electricity sales resulting from the ongoing assessment of the creditworthiness of the Group's customers in the context of the worsening economic situation in Russia in 2008.

Impairment charge related to property, plant and equipment

In 2008, the Group recorded a net impairment charge related to property, plant and equipment of RUB 32,552.8 million. This charge comprised an impairment charge of RUB 33,175.1 million following a downward revision of the estimated future cashflow of certain generation assets in light of the deterioration of economic conditions in Russia in 2008, which was partially offset by a reversal of impairment of RUB 622.3 million following a revaluation of certain other property, plant and equipment.

Operating (loss)/profit

The Group made an operating loss for 2008 of RUB 9,541.2 million, resulting in an operating margin of (8.9)%, as compared to a RUB 10,364.5 million profit for 2007, resulting in an operating margin of 12.8%. This change was largely as a result of the recording of an impairment charge related to property, plant and equipment of RUB 32,552.8 million in 2008 as described above. If adjusted to exclude the effect of this impairment charge, the Group made an operating profit for 2008 of RUB 23,011.5 million, resulting in an operating margin of 21.4%.

Net finance costs

Net finance costs decreased by RUB 330.0 million, or 18.1%, to RUB 1,494.8 million in 2008 from RUB 1,824.8 million in 2007. This decrease was primarily attributable to interest income of RUB 1,911.1 million in 2008, arising from the increased amount of cash-at-hand that was deposited in deposit accounts and promissory notes and the higher rates of interest paid on those investments. This increase was partially offset by an increase in interest expenses due to increased interest rates on floating rate borrowings and a loss on derivative financial instruments.

Impairment of available-for-sale financial assets

In 2008, the Group recorded a charge of RUB 6,464.3 million for impairment of available-for-sale financial assets. The charge resulted from a downwards mark-to-market re-valuation of investments in various utilities companies that the Group received upon obtaining a 100% stake in LLC Energy Index HydroOGK from RAO UESR in 2008 as part of the reorganisation of RAO UESR.

Share of loss of associates and jointly controlled entities

In 2008, share of loss of associates and jointly controlled entities increased by RUB 1,412.0 million to RUB 1,531.3 million from RUB 119.3 million in 2007. The increase was primarily attributable to a share of losses of RUB 886.2 million and RUB 855.3 million in BoGES Group and BALP Group, respectively. These two groups were established as part of a joint venture between the Group and Rusal to construct Boguchanskaya HPP and Boguchansky Aluminium Plant. This share of losses was partially offset by a share of profit of RUB 249.5 million in OJSC OGK-1. The Group had received shares in OJSC OGK-1 as part of the reorganisation of RAO UESR.

Income tax charge

Income tax charge decreased by RUB 2,500.8 million, or 84.8%, to RUB 448.6 million in 2008 from RUB 2,949.4 million in 2007. The decrease was primarily attributable to a reduction in deferred income tax liabilities, which was partially offset by an increase in current income tax expense due to increased operating profit under RAS. The statutory corporate tax rate in Russia in 2008 and 2007 was 24%.

(Loss)/profit for the period

For the reasons set forth above, the Group experienced a net loss of RUB 19,480.2 million for the year ended 31 December 2008, as compared to a net profit of RUB 5,471.0 million for the year ended 31 December 2007.

Results of Operations for the Years Ended 31 December 2007 and 2006

Revenues

The table below shows a breakdown of revenues for the periods indicated:

	Year Ended 31 December		
	2006	2007	Change (%)
<i>(amounts in RUB millions, except percentages)</i>			
Sales of electricity (capacity)	48,405.2	76,494.3	58.0
Other revenue	5,031.1	4,262.2	(15.3)
Total revenue	53,436.3	80,756.5	51.1

Revenues increased by RUB 27,320.2 million, or 51% to RUB 80,756.5 million in 2007 from RUB 53,436.3 million in 2006, largely as a result of higher electricity revenues for the reasons discussed below.

Sales of electricity (capacity)

Revenues from sales of electricity (capacity) increased by RUB 28,089.1 million, or 58%, to RUB 76,494.3 million in 2007 from RUB 48,405.2 million in 2006. The increase in revenues resulted from higher tariffs (including RUB 5,864.0 million that was attributable to a special purpose tariff that, beginning in 2007, was permitted in order to fund part of RusHydro's investment programme) and an increased share of sales of electricity, following the launch of the new wholesale electricity market on 1 September 2006, at unregulated prices on the day-ahead and balancing markets.

The tables below show a breakdown of revenues from sales of electricity and capacity generated by the Group for the periods indicated, and a breakdown of sales between (i) the regulated sector and (ii) sales at unregulated prices.

	Year Ended 31 December		
	2006	2007	Change (%)
<i>(amounts in RUB millions, except percentages)</i>			
Revenue from electricity and capacity sales (RUB million)	48,405.2	76,494.3	58.0
Comprising: ⁽¹⁾			
Electricity ⁽²⁾	48,405.2	50,500.8	—
Capacity.....	—	25,993.5	—
Volume			
Electricity (kWh millions) ⁽²⁾	133,919.0	150,494.7	12.4
Capacity (MW).....	—	29,002.0	—
Average Realised Price (RUB/MWh)⁽³⁾	—	508.3	—

1. It is not possible to provide a breakdown of revenues from sales of electricity and capacity for this period.

2. Includes re-sales of purchased electricity, as well as sales of electricity generated by the Group.

3. Total revenue from electricity and capacity divided by volume of electricity sold.

Unaudited

	Year Ended 31 December 2006				Year Ended 31 December 2007			
	Regulated Market	Unregulated Market	Retail Sales	Total	Regulated Market	Unregulated Market	Retail Sales	Total
<i>(amounts in RUB millions)</i>								
Revenue from electricity and capacity sales	15,779.0	6,943.0	25,683.4	48,405.4	34,554.0	11,908.0	30,032.3	76,494.3
Comprising: ⁽¹⁾								
Electricity.....	15,779.0	6,943.0	25,683.4	48,405.4	9,712.0	11,908.0	28,880.8	50,500.8
Capacity.....	—	—	—	—	24,842.0	—	1,151.1	25,994.5

1. It is not possible to provide a breakdown of revenues from sales of electricity and capacity for this period.

Operating expenses

The table below shows the Group's operating expenses for the periods indicated:

	Year Ended 31 December				
	2006		2007		
	Amount	Percentage of Total Operating Expenses	Amount	Percentage of Total Operating Expenses	Change (%)
	(amounts in RUB millions, except percentages)				
Purchased electricity (capacity)	16,120.1	30.2	26,574.5	37.8	64.9
Electricity distribution expenses	10,426.3	19.6	10,993.1	15.6	5.4
Depreciation of property, plant and equipment.....	4,292.3	8.1	8,457.5	12.0	97.0
Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)	4,708.8	8.8	6,181.8	8.8	31.3
Third parties services, including:					
Services of SO-CDU, NP ATS, CFR, RAO UESR	2,951.8	5.5	2,494.9	3.5	(15.5)
Repairs and Maintenance	1,914.2	3.6	1,939.2	2.8	1.3
Services of subcontracting companies.....	557.9	1.0	1,134.8	1.6	103.4
Consulting, legal and information expenses.....	389.7	0.7	1,007.0	1.4	158.4
Insurance cost	323.8	0.6	515.4	0.7	59.2
Security expenses.....	200.2	0.4	475.3	0.7	137.4
Rent.....	534.3	1.0	510.5	0.7	(4.5)
Transportation expenses	191.1	0.4	278.2	0.4	45.6
Other third parties services	1,253.7	2.4	1,615.6	2.3	28.9
Taxes other than income tax	2,478.9	4.6	3,176.9	4.5	28.2
Other materials	1,250.2	2.3	1,324.0	1.9	5.9
Write off and charge of impairment of accounts receivable	521.5	1.0	505.3	0.7	(3.1)
Water usage expenses	1,005.7	1.9	855.0	1.2	(15.0)
Social charges	297.2	0.6	584.2	0.8	96.6
Loss on disposals of property, plant and equipment, net	2,587.2	4.9	164.4	0.2	(93.6)
Other expenses.....	1,313.3	2.4	1,604.4	2.4	22.2
Total operating expenses	53,318.2	100	70,392.0	100	32.0

Total operating expenses increased by RUB 17,073.8 million, or 32.0%, to RUB 70,392.0 million in 2007 from RUB 53,318.2 million in 2006. The increase in operating expenses was primarily attributable to an increase in purchased electricity (capacity).

Purchased electricity (capacity)

In 2007, purchased electricity (capacity) expenses increased by RUB 10,454.4 million, or 64.9%, to RUB 26,574.5 million from RUB 16,120.1 million in 2006. This increase was primarily due an increase in the volume of electricity (capacity) that the Group purchased on the day-ahead market to enable it to fulfil its supply obligations to customers on the regulated market, as well as to higher prices for electricity (capacity) on the day-ahead market and the balancing market, and an increase in the prices of electricity purchased for re-sale by the Group's retailing segment.

Electricity distribution expenses

In 2007, electricity distribution expenses increased by RUB 566.8 million, or 5.4%, to RUB 10,993.1 million from RUB 10,426.3 million in 2006. This increase was primarily due to an increase in the volume of sales of electricity by the Group's retailing segment, in response to increased electricity consumption in Russia.

Depreciation of property, plant and equipment

In 2007, depreciation cost for property, plant and equipment increased by RUB 4,165.2 million, or 97.0%, to RUB 8,457.5 million from RUB 4,292.3 million in 2006. This increase was primarily due to a revaluation of property, plant and equipment in 2007, following a change in accounting policy, as well as to the commissioning of newly-constructed property, plant and equipment.

Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)

In 2007, employee benefit expenses increased by RUB 1,473.0 million, or 31.3%, to RUB 6,181.8 million from RUB 4,708.8 million in 2006. This increase was primarily due to an increase in base salary levels due to salary indexation, as well as costs resulting from increased participation in the Group's employee pension programme and the introduction of a share option programme in 2007.

Third parties services, including:

Services of SO-CDU, NP ATS, CFR, RAO UESR

Services of SO-CDU, NP ATS, CFR, RAO UESR decreased by RUB 456.9 million, or 15.5%, to RUB 2,494.9 million in 2007 from RUB 2,951.8 million in 2006. These payments are made by participants in the electricity market to help ensure its continuing operation. This decrease was primarily attributable to a reduction in payments by the Group's retailing segment to RAO UESR.

Services of subcontracting companies

Services of subcontracting companies increased by RUB 576.9 million, or 103.4%, to RUB 1,134.8 million in 2007 from RUB 557.9 million in 2006. This increase was largely attributable to an increase in payments to construction and scientific research sub-contractors.

Consulting, legal and information expenses

Consulting, legal and information expenses increased by RUB 617.3 million, or 158.4%, to RUB 1,007.0 million in 2007 from RUB 389.7 million in 2006. This increase was largely attributable to services that were required in connection with the reorganisation of the Group as part of the reform of RAO UESR.

Other third parties services

Other third party services increased by RUB 361.9 million, or 28.9%, to RUB 1,615.6 million in 2007 from RUB 1,253.7 million in 2006. This increase was largely attributable to increased costs relating to, among other things, insurance, security and transportation, as well as costs associated with the preparation of a water flow zone at Bureyskaya HPP.

Taxes other than income tax

In 2007, taxes other than income tax increased by RUB 698.0 million, or 28.2%, to RUB 3,176.9 million from RUB 2,478.9 million in 2006. This increase was primarily due to an increase in property tax due to the commissioning of newly-constructed property, plant and equipment.

Loss on disposals of property, plant and equipment, net

Loss on disposals of property, plant and equipment, net decreased by RUB 2,422.8 million, or 93.6%, to RUB 164.4 million in 2007 from RUB 2,587.2 million in 2006. The losses recorded in 2006 were largely attributable to a RUB 2,335.4 million net loss which resulted from a disposal of construction in progress to OJSC Dagautodor. The disposed assets comprised of roads, bridges and other infrastructure under construction in the Republic of Dagestan.

Operating profit

The Group's operating profit for 2007 was RUB 10,364.5 million, resulting in an operating margin of 12.8%, as compared to RUB 15,089.5 million for 2006, resulting in an operating margin of 28.2%. Although revenues increased in 2007, the operating profit for 2006 included an impairment reversal related to property, plant and equipment of RUB 14,971.4 million following an upwards revaluation of various property, plant and equipment in response to improved forecasts for economic growth and electricity consumption in Russia and the introduction of the new wholesale electricity market. If adjusted to exclude the effect of this impairment reversal, the Group made an operating profit for 2006 of RUB 118.1 million, resulting in an operating margin of 0.2%.

Net finance costs

Net finance costs increased by RUB 1,008.6 million, or 123.6%, to RUB 1,824.8 million in 2007 from RUB 816.2 million in 2006. This increase was primarily attributable to an increase in interest expenses of RUB 863.1 million due to an increase in non-current debt, which was partially offset by an increase in interest income received on short-term investments.

Income tax charge

Income tax charge decreased by RUB 3,700.2 million, or 55.6%, to RUB 2,949.4 million in 2007 from RUB 6,649.6 million in 2006. The statutory corporate tax rate in Russia in 2007 and 2006 was 24%.

Profit for the period

For the reasons set forth above, net profit for the period for the year ended 31 December 2007 decreased to RUB 5,471.0 million from RUB 7,623.7 million for the year ended 31 December 2006.

Liquidity and Capital Resources

The Group's primary sources of liquidity are cash provided from operating activities, debt financing and issuances of equity.

The Group currently expects to finance its future business needs, including those to fund additional capital expenditures in accordance with its business strategy, from cash flows generated by the Group's operating activities and external sources of financing.

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporations, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The volume of wholesale financing has significantly reduced since August 2007. The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian stock markets and at times much higher than normal interbank lending rates. 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. See "Risk Factors – Risks associated with the Group and its operations – The Group may require significant capital investment" and "Operating and Financial Review – Liquidity and Capital Resources – Borrowings".

Capital expenditure and requirements

The Group's principal financing requirements have been, and RusHydro expects them to continue to be, related to its electricity generation operations, as well as its modernisation and new construction programmes. Historically, funding of the Group's capital requirements has come from cash flows from its operating activities and external sources of financing. RusHydro intends to continue to fund its capital expenditures from these cash flows.

The electricity generation business is capital-intensive and many of the Group's facilities are old and necessarily require periodic upgrading and improvement. RusHydro expects the required investments will have a significant effect on its cash flows and future results of operations.

The Group's total capital expenditure in 2008, 2007 and 2006 was RUB 33,927.4 million, RUB 37,914.5 million and RUB 21,951.2 million, respectively. This capital expenditure was primarily used in each of those three years in the ongoing construction of new facilities. See "Expansion Plans and Projects" for a summary of those facilities and a summary of RusHydro's actual and planned capital expenditure projects for the Group, including estimated financing requirements. RusHydro is still formulating these plans and may review and adapt them in accordance with its business strategy. RusHydro had already modified its investment plans in response to the economic situation in Russia in 2008, and, if volatile economic conditions continue, it may revise these plans again. If RusHydro decides to implement any of these plans, it is likely to incur significant capital resources. RusHydro currently expects that the Group would fund its proposed investments for repairs, maintenance and modernisation primarily from cash flows from operations. RusHydro currently intends to fund capital expenditure under its investment programme from external sources of financing, including shares issuances. Failure to undertake planned expenditures on production facilities could adversely affect

RusHydro's ability to maintain or increase production. See "Risk Factors – Risks Associated with the Group and its Operations – The Group may require significant capital investment".

Liquidity and working capital

Historically, the Group has relied on cash from its operating activities and external financing as its main source of liquidity. The Group had cash and cash equivalents of RUB 24,837.9 million at 31 December 2008, RUB 8,266.7 million at 31 December 2007 and RUB 6,604.3 million at 31 December 2006. Substantially all of the Group's cash is held in current accounts or on short-term deposit with several major Russian banks or invested in short-term promissory notes issued by banks. The Group's cash is held primarily in roubles, although, as at 31 December 2008, the Group also held RUB 12.6 million in euro and RUB 0.6 million in U.S. dollars.

The liquidity and working capital requirements of the Group are subject to variations depending on the payment trends of the Group's customers. In addition, electricity retail companies of the Group experience short-term financing requirements to cover cash gaps between their purchases on the wholesale electricity market and the sales on the retail electricity market.

Historical cash flows

The table below shows the Group's net cash flows from operating, investing and financing activities for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions)</i>		
Profit/(loss) before income tax.....	14,273.3	8,420.4	(19,031.6)
Net cash (used in)/generated by operating activities	(6,215.4)	17,034.3	27,620.7
Net cash used in investing activities	(21,379.3)	(35,883.0)	(33,022.6)
Net cash generated by financing activities.....	32,214.3	20,511.2	21,973.0
Increase in cash and cash equivalents	4,619.6	1,662.4	16,571.1

Cash flows from operating activities

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation and impairment charges and reversals, and the effects of changes in working capital.

In 2008, the Group generated net cash of RUB 27,620.7 million from its operating activities, an increase of 62.1% from RUB 17,034.3 million in 2007. This increase was primarily due to an increase in cash generated from sales of electricity (capacity) as compared with 2007, as well as the effects of certain reductions in working capital requirements in 2008, including an increase in accounts payable and accruals of RUB 3,167.5 million, an increase of RUB 5,760.2 million in other taxes payable and a decrease of RUB 2,715.8 million in other current assets. These factors were partially offset by an increase in other working capital requirements, including an increase of RUB 9,294.2 million in accounts receivable and prepayments and income tax paid of RUB 11,422.3 million.

In 2007, the Group generated net cash of RUB 17,034.3 million from its operating activities, as compared to net cash used in operating activities of RUB 6,215.4 million in 2006. This increase was primarily due to an increase in cash generated from sales of electricity (capacity) as compared with 2007, which was partly offset by an increase in certain working capital requirements in 2008, including an increase in accounts receivable and prepayments of RUB 4,752.8 million, a decrease in other non-current liabilities of RUB 1,032.9 million and income tax paid of RUB 4,283.3 million. These increases in working capital requirements in 2008 were partly offset by an increase in accounts payable and accruals of RUB 8,965.8 million.

Cash flows used in investing activities

In 2008, the Group used net cash flows in investing activities of RUB 33,022.6 million, a decrease of RUB 2,860.4 million, or 8.0%, from RUB 35,883.0 million in 2007. This decrease was primarily due to a reduction in purchase of property, plant and equipment of RUB 6,953.9 million, which was partially offset by an increase of purchase of promissory notes and other short-term investments of RUB 3,429.2 million.

In 2007, the Group used net cash flows in investing activities of RUB 35,883.0 million, an increase of RUB 14,503.7 million, or 67.8%, from RUB 21,379.3 million in 2006. This increase was primarily due to an increase in purchase of property, plant and equipment of RUB 11,473.5 million

and increase of purchase of promissory notes and other short-term investments of RUB 3,689.9 million.

Cash flow from financing activities

In 2008, the Group generated net cash of RUB 21,973.0 million from its financing activities, an increase of RUB 1,461.8 million or 7.1% from RUB 20,511.2 million in 2007. This increase was primarily due to an increase in proceeds from short-term debt of RUB 8,386.4 million, a reduction in repayment of debt of RUB 5,303.4 million, a reduction in purchase of treasury shares of RUB 5,427.5 million and a reduction in repayment of advances to RAO UESR under investment agreements of RUB 3,134.6 million. Such increases were offset by a reduction in the proceeds from share issuance of RUB 20,623.5 million as compared with 2007. Proceeds from short-term debt in 2008 amounted to RUB 24,671.7 million and were derived predominantly from the issuance of RUB 21,000.0 million of promissory notes in the first half of 2008. Such promissory notes were subsequently acquired by RAO UESR and, upon the acquisition of certain assets and liabilities as the result of the reorganisation of RAO UESR on 1 July 2008, the promissory note liability was cancelled against promissory notes acquired as at 1 July 2008 with no repayment taking place.

In 2007, the Group generated net cash of RUB 20,511.2 million from its financing activities, a decrease of RUB 11,703.1 million or 36.3% from RUB 32,214.3 million in 2006. This decrease was primarily due to a reduction in proceeds from long-term debt of RUB 12,800.0 million, the purchase of treasury shares of in an amount of RUB 5,427.5 million, an increase in repayments of debt of RUB 2,630.5 million, repayment of advances to RAO UESR under investment agreements of RUB 2,925.9 million and payments of total dividends of RUB 1,341.3 million. This decrease was partially offset by an increase in proceeds from short-term debt of RUB 10,877.8 million and proceeds from share issuance of RUB 5,647.5 million.

Borrowings

As at 31 December 2008, the Group's total debt was RUB 23,392.4 million. The same figure for 31 December 2007 was RUB 24,017.2 million and for 31 December 2006 stood at RUB 21,582.9 million.

The table below sets out a breakdown by maturity of the Group's non-current debt under loans and bonds as at 31 December for each of 2008, 2007 and 2006. The table does not include non-current liabilities under finance leases, which, as at 31 December 2008, totalled RUB 1,018.5 million.

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions)</i>		
Due for repayment			
Between one and two years	500.0	479.8	240.3
Between two years and three years	471.3	—	5,000.0
Between three years and four years.....	—	5,000.0	323.4
Between four years and five years	5,000.0	174.9	4,762.8
After five years	9,953.3	12,894.4	8,670.4
Total.....	15,924.6	18,549.1	18,996.9

Non-current debt

As at 31 December 2008, the Group's non-current debt comprised bonds, loans and finance leases in the total amount of RUB 20,015.5 million. The debt includes both fixed and floating rate borrowings, and, apart from one U.S. dollar-denominated loan of USD 60 million due 2013 with CF Structured Products B.V., is all denominated in roubles.

In 2006, the Group issued RUB 5,000 million rouble-denominated bonds due 2011 and bearing a coupon of 8.1%, the proceeds of which were used to finance the completion of Boguchanskaya HPP and to fund subsidiaries of the Group. In addition, as at 31 December 2008, the Group had a loan with the European Bank for Reconstruction and Development ("EBRD"), totalling RUB 6,300.0 million, which was obtained in September 2006 to finance a programme to upgrade HPPs of the Volzhskaya-Kamskaya Cascade. The EBRD loan comprises three tranches: tranche 1 of RUB 2,023.8 million (net of transaction costs of RUB 276.2 million as at 31 December 2008) is due 2020 and bears a floating rate of interest of MOSPRIME plus 3.65%; tranche 2 of RUB 850.0 million is due

2014 and bears a floating rate of interest of MOSPRIME plus 2.75%; and tranche 3 of RUB 3,150.0 million is due 2016 and bears a floating rate of interest of MOSPRIME plus 3.05%.

As at 31 December 2008, the Group had two loans with Morgan Stanley Bank International Ltd: a loan obtained in December 2006 of RUB 3,000.0 million due 2013 which bears a fixed rate of interest of 8.75% per annum; and a loan obtained in April 2007 of RUB 1,500.0 million due 2014 which bears a floating rate of interest of MOSPRIME plus 1.5%. The proceeds of these loans were applied to fund the Group's investment programme.

As at 31 December 2008, the Group also had a loan with a present value of RUB 1,198.0 million (using a discount rate of 8.57%) with the municipal authority of the Kamchatka region for the purpose of Mutnovskaya GeoPP construction. This loan bears an interest rate of 1% and is due for final repayment by 1 January 2035.

Current debt

As at 31 December 2008, the Group's current debt (and current portion of non-current debt) was RUB 3,376.9 million and comprised primarily current liabilities of RUB 2,064.1 million under finance leases (compared to total liabilities under finance leases of RUB 3,082.6 million) at effective interest rates ranging from 11.1% to 20.0%. In addition, the Group had aggregate short-term loans of RUB 471.3 million, bearing an effective interest rate of 9.8%, from the Ministry of Railways of Russia.

Contractual Obligations and Capital Commitments

In addition to its financial liabilities, the Group has various contractual obligations and purchase commitments as summarised below:

Operating lease obligations

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:

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions)</i>		
Less than one year.....	264.5	314.7	336.7
Between one year and five years.....	957.4	1,150.1	1,264.3
After five years	9,253.2	10,858.6	10,561.0
Total.....	10,475.1	12,323.4	12,162.0

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 in accordance with changes in market rental levels.

Capital commitments

In May 2006, RusHydro and Rusal entered into a co-operation agreement relating to the establishment of a 50/50 joint venture for the completion and subsequent operation of the Boguchanskaya HPP, with an installed capacity of 3,000 MW, and for the construction and subsequent operation of an aluminium production plant, with a capacity of 597,000 tonnes of aluminium per annum, both located in the Krasnoyarsk Region. Both the Group and Rusal have committed to finance the construction equally. The total combined investment to be contributed by the Group and Rusal amounts to RUB 132,123 million from 2008 to 2012 in accordance with the Group's investment programme. The Group contributed RUB 15,071 million in 2008.

Other future capital expenditures in accordance with contractual obligations amounted to RUB 31,597.6 million at 31 December 2008, RUB 7,595.5 million at 31 December 2007 and RUB 8,375.5 million at 31 December 2006.

The majority of future capital expenditures under contractual obligations as at 31 December 2008 is related to the following hydro power stations:

- Zagorskaya PSHPP-2 in the amount of RUB 13,972.2 million, mainly due to the construction of a station;
- Neporozhniy Sayano-Shushenskaya HPP in the amount of RUB 5,575.5 million, mainly due to the construction of a coast spillway; and
- Saratovskaya HPP in the amount of RUB 3,647.7 million, mainly due to the supply of hydroturbines.

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 it operates.

Off-balance Sheet Arrangements

RusHydro had no off-balance sheet arrangements as at 31 December 2008.

Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions that affect the reported 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:

Interpretation of Russian tax legislation

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 activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the 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 do not fully cover all the aspects of the Group reorganisation, there might be respective legal and tax risks.

Impairment of other assets and accounting for provisions

At each balance sheet date, the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered 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.

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts

surrounding each exposure. Based on external sources of information about considerable changes in the economic situation in Russia as a result of the global financial crisis, RusHydro's management took a decision to perform an impairment test for non-current assets.

Useful lives 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 physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Market Risk

In the normal course of its business, the Group's financial position is routinely subject to liquidity risk, credit risk, interest rate risk and, to a lesser extent, currency risk. The Group has not generally entered into hedge transactions to manage such risks, nor has it held or issued derivative financial instruments for trading purposes.

Liquidity Risk

The Group seeks to manage liquidity risk management through the retention of sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and bills of exchange. Current liabilities are represented mainly by the account payable to suppliers and contractors. The Group has implemented a control system with its counterparties that includes a standardised payment structure, payment deadlines and a stated percentage ratio between advance and final settlement.

Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables, particularly to municipal and state-controlled electricity retail companies. The Group takes into account a customer's financial position and its credit history in assessing its credit quality. The Group monitors its existing receivables and takes steps to improve collection. Although the Group experienced an increase in accounts receivable in 2008, which was primarily attributable to the worsening of the economic situation in Russia, Management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group also deposits cash from time to time with financial institutions in Russia. The Board of Directors approved the list of banks for deposits, as well as rules for the placement of deposits. Moreover, the Group constantly evaluates the financial condition of these financial institutions, including through a review of the ratings assigned to them by independent agencies.

Interest rate risk

The Group's operating profits and cash flows from operating activities are largely independent of changes in market interest rates. The Group's borrowings include floating rate loans, whose interest rates are established on the basis of the MOSPRIME rate, and it is therefore exposed to the risk of interest rate changes. See "– Liquidity and Capital Resources – Borrowings".

Management performed sensitivity analyses of rates fluctuations for 2008, and, based on their analyses, if the MOSPRIME rate increased by 0.5 percent, profit after tax would decrease by RR 29.6 million for the year ended 31 December 2008. In 2008, the Group entered into interest rate swaps with two foreign banks to reduce its interest rate exposure.

Currency risk

Management does not believe that the Group is currently exposed to material foreign exchange risk since all of its business activities are conducted in Russia, and, as a result, it receives all its revenues, and incurs all of its operating costs, in roubles. Moreover, substantially all of the Group's current contractual obligations and borrowings are denominated in roubles.

In March 2007 RusHydro issued a guarantee for a loan of USD 520 million raised by OJSC Boguchansky Aluminium Plant to finance construction of Boguchansky Aluminium Plant and

completion of Boguchanskaya HPP. RusHydro's guarantee covers 50 percent of the borrower's liabilities under the loan agreement; the remaining 50 percent of liabilities are secured by the guarantee and surety provided by Rusal entities. The loan period is 3 years and the average interest rate is LIBOR + 0.825%. In order to reduce foreign currency risk under this guarantee, in 2008 the Group entered into foreign exchange forward contracts with two foreign banks.

RELATED PARTY TRANSACTIONS

The following describes transactions that the Group has entered into with related parties as defined in IAS 24 “Related party disclosures”, affiliates and other entities and persons known to the Group, in which either the Group or its management, directors or major shareholders have a controlling interest or over which any of the foregoing have a significant influence, and which the Group believes are material to it or to the other party. For the description of certain other transactions with related parties, see note 6 to the audited combined and consolidated financial statements included in this Prospectus.

Transactions with RAO UESR, its subsidiaries and associates

Up to 30 June 2008, RusHydro’s direct controlling shareholder was RAO UESR, which held a controlling stake in large sectors of the Russian power generation industry, including the regional electricity retail companies which, in terms of volume of sales, comprise the Group’s principal customers, as well as electricity grid and electricity distribution companies with which the Group enters into transactions in the ordinary course of business (see “Industry Overview” and “Business”).

Electricity (capacity) revenue

In 2007 and 2006, the Group derived revenues of RUB 28,922.5 million and RUB 18,308.3 million, respectively (RUB 11,151.1 million in the six months ended 30 June 2008) from sales of electricity (capacity) to subsidiaries and associates of RAO UESR. The majority of these sales were made at regulated tariffs (and, following the introduction of the New Wholesale Market Rules, under Regulated Contracts for a term of one year) to regional electricity sales companies.

Other revenue

In 2007 and 2006, the Group derived other revenues of RUB 110.0 million and RUB 2,274.5 million, respectively (RUB 2.8 million in the six months ended 30 June 2008) from subsidiaries and associates of RAO UESR.

Purchased electric power expenses

The Group purchased electric power from subsidiaries and associates of RAO UESR in the amount of RUB 10,478.9 million and RUB 4,005.7 million in 2007 and 2006, respectively (RUB 2,806.1 million in the six months ended 30 June 2008).

Electricity distribution expenses

The Group paid electricity distribution expenses to subsidiaries and associates of RAO UESR in the amount of RUB 1,570.4 million and RUB 9,339.4 million in 2007 and 2006, respectively (RUB 3,441.9 million in the six months ended 30 June 2008).

Services of the System Operator

The Group paid fees to the System Operator in the amount of RUB 1,231.0 million and RUB 1,076.8 million in 2007 and 2006, respectively. The System Operator became a state-controlled entity in 2008 as a result of the reorganisation of RAO UESR. See “- Transactions with State-Controlled Entities”.

Other Expenses

In 2007 and 2006, the Group incurred other expenses to subsidiaries and associates of RAO UESR of RUB 411.4 million and RUB 328.3 million, respectively (RUB 27.9 million in the six months ended 30 June 2008).

Other

The Group paid transmission fees to RAO UESR in the amount of RUB 1,243.2 million and RUB 1,807.9 million in 2007 and 2006, respectively (RUB 756.7 million in the six months ended 30 June 2008).

During 2007 the Group purchased property, plant and equipment from RAO UESR in an aggregate amount of RUB 1,073.5 million.

Transactions with State-Controlled Entities

Currently, the Russian Federation controls the Group directly, and, prior to 1 July 2008, the Russian Federation controlled the Group through RAO UESR. The Group enters into numerous transactions with state-controlled entities in the ordinary course of its business, including, for instance, the sale to such entities of electricity and payment for the distribution of electricity through their transmission and distribution grids.

Electricity (capacity) revenue

In 2008, 2007 and 2006, the Group derived revenues of RUB 4,800.8 million, RUB 2,035.6 million and RUB 774.4 million, respectively, from sales of electricity (capacity) to state-controlled entities. The majority of these sales were made at regulated tariffs (and, following the introduction of the New Wholesale Market Rules, under Regulated Contracts for a term of one year), and the major customers included LLC Ryazan municipal retail supplier, LLC Transneftservice-S, OJSC Nijnovatomenergobit and OJSC Nevinnomissky Azot.

Other revenue

In 2008, the Group derived revenues of RUB 2,438.7 million from state-controlled entities (RUB 1.9 million in 2007).

Purchased electric power expenses

The Group purchased electric power from state-controlled entities in the amount of RUB 3,211.2 million, RUB 2,971.1 million and RUB 1,866.4 million in 2008, 2007 and 2006, respectively.

Services of the System Operator

The Group paid fees to the System Operator in the amount of RUB 2,349.8 million in 2008.

Other Expenses

The Group incurred other expenses to state-controlled entities of RUB 594.3 million, RUB 735.8 million and RUB 504.2 million in 2008, 2007 and 2006, respectively.

Transactions with Associates and Jointly-Controlled Entities

The Group derived revenue from sales of electricity (capacity) to jointly-controlled entities in the amount of RUB 103.7 million in 2008.

The Group derived other revenue from associates and jointly-controlled entities in the aggregate amount of RUB 392.3 million and RUB 8.4 million in 2008 and 2007, respectively.

The Group incurred purchased electric power expenses to associates in the amount of RUB 158.2 million in 2008.

The Group incurred other expenses to associates and jointly-controlled entities in the aggregate amount of RUB 12.9 million in 2008.

Contribution to the Group's Revenues

As a result of the foregoing, the Group derived a substantial majority of its revenues from transactions with related parties, and, for the years ended 31 December 2008, 2007 and 2006, the aggregate revenues from related party transactions comprised 17.5%, 38.5% and 40.0%, respectively, of the Group's total combined and consolidated revenues for those periods.

Many of the transactions described above were subject to tariff regulation, particularly in relation to sales of electricity and capacity (see "Industry Overview – Tariffs"). To the extent that the pricing of such transactions was not regulated, RusHydro believes that such transactions were concluded on terms determined by reference to market prices and terms.

In addition to the transactions described above, RusHydro enters into transactions in the regular course of business with parties who may be considered "interested" parties for the purposes of the Joint Stock Companies Law, which RusHydro believes are not material to it or the other party.

DIVIDEND POLICY AND TRADING VOLUMES

Dividend Policy

The principal documents regulating the payment of dividends by RusHydro are the Joint Stock Companies Law and RusHydro's Articles of Association and Regulations on dividend policy. See "Description of Share Capital and Certain Requirements of Russian Legislation".

RusHydro bases its dividend policy on the establishment of a balance between RusHydro's interests and those of its shareholders, as well as respect for the rights of its shareholders that are set out under Russian law, the Articles of Association and RusHydro's internal regulations. The underlying principles of RusHydro's dividend policy are as follows:

- to observe shareholders' rights and interests;
- to seek to ensure a stable, long-term and predictable dividend policy;
- to seek to ensure stable dividend payments at a level that is appropriate for shareholders;
- to maintain the required financial and operating conditions for RusHydro, as well as ensuring its further development; and
- to seek to ensure increased investment appeal and market capitalisation for RusHydro.

RusHydro anticipates that it will declare and pay to the Depositary any dividends that RusHydro may pay in the future in respect of the Shares held by the Depositary or its nominee on behalf of DR holders. RusHydro expects to make such payments in roubles for the Depositary to convert into U.S. dollars and distribute to holders of the DRs, net of the Depositary's fees and expenses, as set forth in clause 10.1.1(d) of the GDR Deposit Agreement and section 4.01 of the ADR Deposit Agreement. Accordingly, the value of dividends received by holders of the DRs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollar.

RusHydro may pay a dividend in respect of net income received over the first quarter, half-year, nine months or entire financial year, subject to the policy set out above. According to its Regulations on dividend policy, RusHydro aims to allocate at least 5% of its consolidated net profits calculated under RAS for annual dividends, although the Board of Directors may recommend not to pay a dividend even if RusHydro has earned net profits for the relevant period.

The table below shows the dividends declared by RusHydro for the periods indicated.

	Year ended 31 December		
	2006	2007	2008
	<i>(amounts in RUB millions, except per share amount in roubles)</i>		
Dividend per share ⁽¹⁾	0.0073	0.0051	—
Total amount of dividends	1,778.5	1,240.1	—

(1) The dividend per share data for 2006 and 2007 has been recomputed to show amount per share as if the additional share issuances in 2007 and 2008 have occurred at 31 December 2006.

Trading volumes

The following tables show the recent prices and the trading volumes of the Shares:

	Share price on MICEX (RUB)			
	Lowest	Highest	Close	Volume
2008				
1st quarter	1.70	2.25	1.71	257,472,168.8
2nd quarter	1.60	2.37	1.81	1,638,473,354.7
3rd quarter	0.72	1.87	0.88	11,514,767,056.8
4th quarter	0.38	0.88	0.60	11,864,660,447.7
2009				
1st quarter	0.50	0.76	0.75	13,064,571,501.7

Share price on RTS (Stock Exchange Market) (RUB)				
	Lowest	Highest	Close	Volume
2008				
1st quarter	1.60	2.30	1.72	37,989,622.1
2nd quarter.....	1.61	2.18	1.80	59,294,083.8
3rd quarter	0.70	1.79	0.81	15,107,469.2
4th quarter	0.37	0.89	0.57	10,939,726.8
2009				
1st quarter.....	0.50	0.77	0.75	4,883,684.3

Share price on RTS (Classic Market) (USD)				
	Lowest	Highest	Close	Volume
2008				
1st quarter	0.0725	0.093	0.0735	11,409,785.8
2nd quarter.....	0.0687	0.092	0.0802	37,726,675.1
3rd quarter	0.0305	0.078	0.0305	35,564,598.6
4th quarter	0.014	0.034	0.0209	6,796,413.1
2009				
1st quarter.....	0.0148	0.0236	0.022	9,735,774.2

The following table shows the recent prices of the Rule 144A GDRs on the PORTAL Market of the NASDAQ Stock Market, Inc.:

PORTAL (USD)			
	Lowest	Highest	Close
2008			
3rd quarter	3.05	7.01	3.05
4th quarter	1.35	3.30	2.09
2009			
1st quarter.....	1.48	2.25	2.20

PRINCIPAL SHAREHOLDERS

The following table shows the name and shareholding of each registered shareholder of RusHydro holding over 5% of RusHydro's Shares as at 30 April 2009 based on the information received from RusHydro's registrar and as notified by those shareholders:

Name of the registered shareholder	Total number of Shares	Percentage share in share capital, %
The Russian Federation ⁽¹⁾	157,930,181,760	61.93

(1) The Shares held by the Russian Federation are managed on its behalf by Rusproperty. Rusproperty is the Federal Agency for the Management of State Property, whose functions include the management of shares owned by the Russian Federation.

Other than the major shareholder shown above, RusHydro is not aware of any other shareholders with a beneficial ownership of more than 5% of the Shares.

The Russian Federation is the direct controlling shareholder of RusHydro. On 17 November 2008, the General Meeting of Shareholders of RusHydro also approved the placement of an additional 16 billion Shares by open subscription for the purposes of financing the Group's investment programme. The new Share issuance was registered with the FSFM on 14 May 2009 and is expected to complete in September 2009. In accordance with the federal budget of the Russian Federation, it is expected that the Russian Federation will acquire 4,923,866,100 of the additional Shares in July 2009.

Furthermore, on 10 June 2009, the General Meeting of Shareholders of RusHydro also approved placement of an additional 19 billion Shares by open subscription for the purposes of raising additional financing for the Group's investment programme. The Russian Federation may acquire some of these Shares in exchange for shares held by the Russian Federation in various companies, including, primarily, subsidiaries of RusHydro. See "Risk Factors – Risks Associated with the Group and its Operations – The interests of the Russian Federation as the principal shareholder of RusHydro could conflict with those of other shareholders in RusHydro".

RusHydro is not aware of any arrangements in existence as at the date of this Prospectus which could reasonably be expected to result in a change of control of RusHydro.

None of RusHydro's shareholders has voting rights different from any other holder of its Shares.

MANAGEMENT AND CORPORATE GOVERNANCE

Overview

Under the Articles of Association, RusHydro's management bodies are General Meeting of Shareholders, the Board of Directors, the Management Board and the Chairman of the Management Board.

General Meeting of Shareholders

The General Meeting of Shareholders is RusHydro's supreme governing body. The Board of Directors convenes the General Meeting of Shareholders at least once a year. See "Description of Share Capital and Certain Requirements of Russian Legislation – General Meeting of Shareholders".

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters designated by the Joint Stock Companies Law and the Articles of Association as being the exclusive responsibility of the General Meeting of Shareholders. For a more detailed discussion of the responsibilities of the Board of Directors, see "Description of Share Capital and Certain Requirements of Russian Legislation – Board of Directors".

The Board of Directors currently consists of thirteen members. The table below shows the current Directors. All of RusHydro's current Directors were elected on 10 June 2009, and their terms expire on the date of RusHydro's next annual General Meeting of Shareholders, which must take place on or before 30 June 2010, as required by the Joint Stock Companies Law and the Articles of Association. The business address for each of the Directors is 51 Arkhitektora Vlasova Street, Moscow, 117393, Russian Federation.

Name	Year of Birth	Position within RusHydro
Sergei I. Shmatko	1966	Chairman of the Board of Directors
Rustem Z. Khamitov.....	1954	Deputy Chairman of the Board of Directors
Vasily A. Zubakin	1958	Director, Acting Chairman of the Management Board
Anatoly B. Ballo.....	1961	Director
Andrei V. Sharonov	1964	Director
Sergei S. Beloborodov	1967	Director
Sergei V. Serebryannikov	1952	Independent Director under the U.K. Combined Code on Corporate Governance and Russian independence criteria
Vladimir V. Tatsiy	1960	Independent Director under Russian independence criteria
Eduard P. Volkov.....	1938	Director
Sergei V. Maslov	1960	Director
Boris F. Vainzikher	1968	Independent Director under Russian independence criteria
Oleg V. Surikov	1970	Independent Director under the U.K. Combined Code on Corporate Governance and Russian independence criteria
Viktor I. Danilov-Danilyan....	1938	Independent Director under the U.K. Combined Code on Corporate Governance and Russian independence criteria

Mr. Sergei I. Shmatko

Mr. Sergei I. Shmatko has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2005 – Chairman of the State Conversion Fund.
- From 2005 to 2008 – President of CJSC Atomstroyexport.
- In 2008 – Deputy Director of OJSC Atomenergoprom.
- Since 2008 – Minister of Energy of the Russian Federation.

Mr. Rustem Z. Khamitov

Mr. Rustem Z. Khamitov has been a member of the Board of Directors since 2006. He has also held the following posts:

- From 2003 to 2004 – Head of Large Taxpayer Department of the Ministry of Tax and Duties.
- From 2004 to May 2009 – Head of the Federal Water Resources Agency.

Mr. Vasily A. Zubakin

Mr. Vasily A. Zubakin has been a member of the Board of Directors since 2008, and a member of the Management Board since 2006. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2006 – Member of the Management Board of RAO UESR.
- From 2006 to 2007 – Member of the Management Board of RusHydro.
- From 2007 to 2008 – Deputy Chairman of the Management Board of RusHydro and Member of the Management Board of RusHydro.
- Since 2008 – Acting Chairman of the Management Board of RusHydro.
- Since 2008 – General Director of OJSC HydroOGK MC.
- Since 2008 – Member of the Board of Directors of the Trade System Administrator.

Mr. Anatoly B. Ballo

Mr. Anatoly B. Ballo has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2005 – Head of Department of Project, Structured and Trade Finance of OJSC VTB Bank.
- From 2005 to 2007 – Director of Department of Vnesheconombank.
- From 2006 to 2008 – Member of the Board of Directors of OJSC Hotel Development.
- Since 2006 – Member of the Board of Directors of OJSC Ilyushin Finance Co.
- Since 2007 – Member of the Management Board, Deputy Chairman of State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank).
- Since 2007 – Chairman of the Board of Directors of CJSC Kraslesinvest, Malev Zrt., Rafinerija Unja Modrica A.D., Rafinerija Nafta A.D. and Petrol A.D.
- Since 2007 – Member of the Board of Directors of OJSC Evraziyskiy, LLC NK Severnoye Siyaniye and LLC Household Appliances Plant.
- Since 2008 – Member of the Board of Directors of Eco Telecom Limited and OJSC Krasnoyarsk Region Development Corporation.
- Since 2009 – Member of the Board of Directors of OJSC West-Siberian Metallurgical Works.

Mr. Andrei V. Sharonov

Mr. Andrei V. Sharonov has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2003 to 2004 – First Deputy Minister of the Economic Development and Trade of the Russian Federation.
- From 2004 to 2005 – Deputy Minister of the Economic Development and Trade of the Russian Federation.
- From 2005 to 2007 – State Secretary/Deputy Minister of the Economic Development and Trade of the Russian Federation.
- Since 2007 – Managing Director of CJSC Investment Company Troika Dialog.

Mr. Sergei S. Beloborodov

Mr. Sergei S. Beloborodov has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2003 to 2005 – General Director of LLC EuroSibEnergo.
- From 2005 to 2006 – Counsel to the Office of the Board of Directors of LLC Basic Element Company.
- From 2006 to 2007 – First Deputy General Director of LLC GazEnergoProm Corporation.
- Since 2007 – General Director of LLC GazEnergoProm Corporation.

- Since 2007 – Member of the Board of Directors of OJSC Mezhhregionenergostroy.
- Since 2008 – Member of the Board of Directors of CJSC Centre of Financial Settlements, the Trade System Administrator and CJSC Mezhhregion-Energostroy.
- Since 2008 – Chairman of the Board of Directors of the Market Council and CJSC GF Energo.

Mr. Sergei V. Serebryannikov

Mr. Sergei V. Serebryannikov has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2004 to 2005 – Deputy Dean for Research of the Moscow Power Engineering Institute (Technical University).
- Since 2004 – Head of Department, Professor of the Moscow Power Engineering Institute (Technical University).
- Since 2005 – Dean of the Moscow Power Engineering Institute (Technical University).

Mr. Vladimir V. Tatsiy

Mr. Vladimir V. Tatsiy has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- Since 2000 – Deputy Chairman of the Board of Directors of CJSC SR-DRAGa.
- Since 2001 – Chairman of the Board of Directors of CJSC Settlements and Depository Company.
- Since 2001 – Member of the Board of Directors of CJSC Regional Investment Company.
- Since 2002 – Member of the Board of Directors of OJSC Special Depository INFINITUM.
- From 2003 to 2007 – Vice-President, Head of Depository Centre of CJSC Gazprombank.
- Since 2005 – Member of the Board of Directors of Non-commercial Partnership National Depository Centre and Self-regulated Organisation Russian National Association of Securities Market Participants.
- Since 2007 – First Vice-President, Head of Depository Centre of CJSC Gazprombank.
- Since 2008 – Chairman of the Board of Directors of CJSC Saint Petersburg International Commodity Exchange.
- Since 2008 – Member of the Board of Directors of OJSC RAO East Energy Systems, FSK, OJSC Holding MRSK, CJSC Centre of Financial Settlements and the Trade System Administrator.
- Since 2009 – Member of the Board of Directors of PJSC RRDB.

Mr. Eduard P. Volkov

Mr. Eduard P. Volkov has been a member of the Board of Directors since 2008. He also holds the following posts:

- Since 2004 – Head of Department of Boiler Plants and Ecology of Electric Energy of the Moscow Power Engineering Institute (Technical University).
- Since 2004 – Executive Director of Krzhizhanovsky Energy Institute.
- Since 2008 – Member of the Board of Directors of OJSC RAO East Energy Systems.

Mr. Sergei V. Maslov

Mr. Sergei V. Maslov has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2001 to 2008 – President of OJSC AK Transnefteproduct.
- Since 2008 – President of CJSC Saint Petersburg International Commodity Exchange.
- Since 2008 – Member of the Board of Directors of FSK, OJSC Holding MRSK, OJSC INTER RAO UES and CJSC Centre of Financial Settlements.
- Since 2008 – Chairman of the Board of Directors of the Trade System Administrator.

Mr. Boris F. Vainzikher

Mr. Boris F. Vainzikher has been a member of the Board of Directors since 2008. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2005 – General Director of OJSC Kirishi GRES.
- In 2005 – Executive Director of OJSC Kirishi GRES.
- From 2005 to 2007 – Member of the Management Board, Technical Director of RAO UESR.
- In 2007 – General Director of OJSC Power Machines.
- From 2007 to 2008 – Member of the Management Board, Technical Director of RAO UESR.
- In 2008 – Member of the Board of Director of FSK.
- Since 2008 – Member of the Board of Directors of OJSC Lenenergo.
- Since 2008 – General Director of OJSC TGK-1.

Mr. Oleg V. Surikov

Mr. Oleg V. Surikov has been a member of the Board of Directors since 2009. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2005 – Head of Office, Deputy Managing Director, Deputy General Director for Legal Affairs and Corporate Governance of OJSC Mosenergo.
- From 2005 to 2008 – Chief Expert, Deputy Head, Head of Centre of Financial and Corporate Control of RAO UESR.
- Since 2008 – Director of Corporate Department of OJSC MMC Norilsk Nickel.

Mr. Viktor I. Danilov-Danilyan

Mr. Viktor I. Danilov-Danilyan has been a member of the Board of Directors since 2008. He also holds the following posts:

- Since 2003 – Director of the Institute of Aquatic Problems of the Russian Academy of Sciences.
- Since 2005 – Head of Department of the Peoples' Friendship University of Russia.
- Since 2006 – Chairman of the Board of Directors of the Fund for Sustainable Development.
- Since 2006 – Editor-in-chief of the Publishing house Infra-M.
- Since 2008 – General Director of the Water Management International Centre.

Committees of the Board of Directors

The Articles of Association provide for the creation of committees of the Board of Directors. The chairmen and members of committees are elected by the Board of Directors for a term up to the date of the first meeting of a new Board of Directors.

As at the date of this Prospectus, the Board of Directors has established a Strategy Committee, an Audit Committee, a Personnel and Remuneration Committee and an Investment Committee, the details of which are shown below.

Strategy Committee

The Strategy Committee is a consultative and advisory body of the Board of Directors. The tasks of the Strategy Committee include the preparation and presentation of recommendations to the Board of Directors on issues concerning RusHydro's strategic development.

The term of appointment of the previous members of the Strategy Committee ended on 10 June 2009 following the first meeting of a new Board of Directors that was elected at the Annual General Meeting of shareholders. An election of members to the Strategy Committee is scheduled for 17 July 2009.

Audit Committee

The Audit Committee is a consultative and advisory body of the Board of Directors established mainly for the purpose of supporting the Board of Directors in its supervision of RusHydro's

financial and economic operations. The tasks of the Audit Committee include the preparation and provision of recommendations to the Board of Directors in relation to the independent external audit of RusHydro.

Members of the Audit Committee, as approved by resolution of the Board of Directors on 10 June 2009, are as follows:

Name	Position
Viktor I. Danilov-Danilyan....	Member of the Board of Directors of RusHydro (Independent Director) Chairman of the Committee
Andrei V. Sharonov	Member of the Board of Directors of RusHydro
Oleg V. Surikov	Member of the Board of Directors of RusHydro (Independent Director)

Personnel and Remuneration Committee

The Personnel and Remuneration Committee is a consultative and advisory body of the Board of Directors. The tasks of the Personnel and Remuneration Committee includes the development of principles and criteria for the determination of remuneration and incentive schemes for the members of the Board of Directors, the Chairman of the Management Board and the members of the Management Board.

Members of the Personnel and Remuneration Committee, as approved by resolution of the Board of Directors on 10 June 2009, are as follows:

Name	Position
Sergei V. Serebryannikov	Member of the Board of Directors of RusHydro (Independent Director) Chairman of the Committee
Boris F. Vainzikher	Member of the Board of Directors of RusHydro (Independent Director)
Vladimir V. Tatsiy.....	Member of the Board of Directors of RusHydro (Independent Director)

Investment Committee

The Investment Committee is a consultative and advisory body of the Board of Directors. The tasks of the Investment Committee include the analysis of new investment projects and investment programmes, and the formulation of measures to improve and develop the investment policies of RusHydro.

The term of appointment of the previous members of the Investment Committee ended on 10 June 2009 following the first meeting of a new Board of Directors that was elected at the Annual General Meeting of shareholders. An election of members to the Investment Committee is scheduled for 17 July 2009.

Compliance

In addition to the Audit Committee, RusHydro exercises control over its financial and business activities with an Internal Audit Commission and a Risk Management and Compliance Department:

Internal Audit Commission

The principal duties of the Internal Audit Commission are:

- the supervision of RusHydro's financial and business performance;
- monitoring compliance of RusHydro's financial and business transactions with the legislation of the Russian Federation and the Articles of Association;
- the independent evaluation of information on RusHydro's financial condition.

The shareholders elect the members of the Internal Audit Commission for a term until the next annual General Meeting of Shareholders. Members of the Board of Directors and management bodies may not be appointed to the Internal Audit Commission.

Members of the Internal Audit Commission, as elected by the General Meeting of Shareholders on 10 June 2009, are as follows:

Name	Year of Birth	Position
Marina A. Kovaleva.....	1982	Head of the Office of Consolidated Planning and Perspective Development of the Department of Development and Investment Policy of Minenergo
Andrey S. Kolyada.....	1984	Chief Expert of the Office of Fuel, Energy and Coal for Infrastructure and Military–Industrial Complex of Rusproperty
Mariya G. Tikhonova	1980	Deputy Director of the Department for Economic Regulation and Property in Fuel and Energy, Minenergo
Denis V. Gataulin.....	1978	Deputy Head of the Department for Capital Management of RusHydro
Andrey A. Kochanov	1972	Head of Office of Internal Audit and Risk Management Department of RusHydro

RusHydro remunerates the members of the Internal Audit Commission in accordance with the Regulations on remunerations and compensations to members of the Internal Audit Commission approved by the General Meeting of Shareholders on 25 June 2008.

Internal Audit and Risk Management Department

The Internal Audit and Risk Management Department's main tasks and functions are as follows:

- control over the compliance functions of RusHydro's financial and business operations;
- the review of RusHydro's accounting and operating information;
- the organisation of reviews of the property of RusHydro;
- the assessment and analysis of the financial status of RusHydro, its branches and structural subdivisions;
- control over interested-party and major transactions;
- the identification and analysis of financial and operational risks, and the formulation of proposals for mitigating them;
- the exercise of internal control within RusHydro's subsidiaries and dependent companies through their Internal Audit Commissions; and
- to ensure the observance by members of the Board of Directors, the executive bodies of RusHydro and other employees of the provisions of Russian law and the internal documents of RusHydro that relate to the prevention of conflicts of interests and the use of insider information.

The Internal Audit and Risk Management Department reports to the Chairman of the Management Board and notifies any material violations to the Audit Committee.

Management Board

The Management Board comprises RusHydro's collective executive body, headed by the Chairman of the Management Board and each member is appointed by the Board of Directors for an indefinite term. The Management Board together with the Chairman of the Management Board are principally responsible for the day-to-day management of RusHydro's business. See "Description of Share Capital and Certain Requirements of Russian Legislation – Management Board". Members of the Management Board are collectively referred to in this Prospectus as "management".

The table below shows the current members of the Management Board. The business address for each member of the Management Board is 51 Arkhitektora Vlasova Street, Moscow, 117393, Russian Federation.

Name	Year of Birth	Position within RusHydro
Vasily A. Zubakin	1958	Acting Chairman of the Management Board
Oleg B. Oksuzian.....	1960	Member of the Management Board, Executive Director for Corporate Governance
Boris B. Bogush.....	1952	Member of the Management Board, Managing Director, Head of Production Business Unit
Aleksandr Y. Sergeyev	1977	Member of the Management Board, Managing Director, Head of Sales Business Unit
Aleksandr V. Toloshinov.....	1957	Member of the Management Board, Managing Director, Head of the Siberia Division
Rasim M. Khaziakhmetov	1954	Member of the Management Board, Managing Director of Engineering Business Unit
Sergei A. Yushin.....	1972	Member of the Management Board, Executive Director for Economics and Finance
Konstantin V. Belyaev.....	1968	Member of the Management Board, Executive Director for Institutional Development and Control

Mr. Vasily A. Zubakin

Mr. Vasily A. Zubakin has been a member of the Board of Directors since 2008, and a member of the Management Board since 2006. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2006 – Member of the Management Board of RAO UESR.
- From 2006 to 2007 – Member of the Management Board of RusHydro.
- From 2007 to 2008 – Deputy Chairman of the Management Board of RusHydro, Member of the Management Board of RusHydro.
- Since 2008 – General Director of OJSC HydroOGK MC.
- Since 2008 – Member of the Board of Directors of the Trade System Administrator.

Mr. Oleg B. Oksuzian

Mr. Oleg B. Oksuzian has been a member of the Management Board since 2005. He has also held the following posts:

- From 1998 to 2004 – Section head, Head of Department for Corporate Policy, Director for Corporate Governance of RAO UESR.
- In 2005 – Deputy managing director, Hydrogeneration Business Unit of RAO UESR.

Mr. Boris B. Bogush

Mr. Boris B. Bogush has been a member of the Management Board since 2007. He has also held the following posts:

- From 2002 to 2004 – Deputy General Director, director for production of OJSC VoGEK MC (now called OJSC HydroOGK MC).
- From 2004 to 2005 – Head of Department for Production and Engineering Policy, Hydrogeneration Business Unit of RAO UESR.
- From 2005 to 2007 – Deputy Head of Production Business Unit of OJSC HydroOGK MC.

Mr. Alexander Y. Sergeyev

Mr. Alexander Y. Sergeyev has been a member of the Management Board since 2005. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2004 – Head of Market Monitoring and Analysis Office of RAO UESR.
- In 2004 – Head of Competitive Market Office of RAO UESR.
- From 2004 to 2005 – Head of Marketing Board, Hydrogeneration Business Unit of RAO UESR.

- From 2004 to 2008 – Deputy General Director of OJSC VoGEK MC (now called OJSC HydroOGK MC).
- Since 2005 – Member of the Board of Directors of OJSC Turboremont-VKK.
- Since 2007 – Member of the Board of Directors of LLC Zabaykalye Development Corporation.
- From 2008 to 2009 – Chairman of the Board of Directors of OJSC KrasnoyarskEnergoSbyt.
- Since 2008 – Member of the Board of Directors of OJSC South Yakutiya Development Corporation and OJSC Krasnoyarsk Region Development Corporation.

Mr. Alexander V. Toloshinov

Mr. Alexander V. Toloshinov has been a member of the Management Board since 2005. He has also held, or continues to hold, as applicable, the following posts:

- From 2002 to 2005 – General Director of OJSC Neporozhniy Sayano-Shushenskaya HPP.
- From 2005 to 2006 – First deputy general director of OJSC HydroOGK MC and executive director of JSC Neporozhniy Sayano-Shushenskaya HPP.
- From 2005 to 2007 – Head of Investment Projects Implementation Business Unit of RusHydro.
- Since 2006 – Deputy general director, managing director of OJSC HydroOGK MC.

Mr. Rasim M. Khaziakhmetov

Mr. Rasim M. Khaziakhmetov has been a member of the Management Board since 2005. He has also held the following posts:

- From 2001 to 2005 – General director of OJSC VoGEK MC (now called OJSC HydroOGK MC).
- From 2005 to 2007 – Head of Production Business Unit of RusHydro.

Mr. Sergei A. Yushin

Mr. Sergei A. Yushin has been a member of the Management Board since 2004. He has also held the following post:

- From 2002 to 2004 – Deputy managing director, Hydrogeneration Business Unit of RAO UESR.

Mr. Konstantin V. Belyaev

Mr. Konstantin V. Belyaev has been a member of the Management Board since 2007. He also held the following posts:

- From 2001 to 2005 – Chief accountant of OJSC Svyazinvest.
- From 2005 to 2006 – Member of the Management Board of OJSC Rostelecom.
- From 2005 to 2006 – Member of the Board of Directors of OJSC South Telecommunication Company.
- From 2005 to 2006 – Chairman of the Board of Directors of OJSC VolgaTelecom.
- From 2005 to 2007 – Member of the Management Board of OJSC Svyazinvest.
- From 2006 to 2007 – Chairman of the Board of Directors of OJSC SibirTelecom.
- From 2006 to 2007 – Member of the Board of Directors of OJSC North-West Telecom.
- In 2007 – Deputy director, Asset management department of CJSC Sistema Telecom.

Chairman of the Management Board

The Chairman of the Management Board manages the current activities of RusHydro in accordance with resolutions adopted by the General Meeting of Shareholders and the Board of Directors. RusHydro does not currently have a Chairman of the Management Board. Since June 2008, the powers and authorities of the Chairman of the Management Board have been performed by Mr. Vasily A. Zubakin, the acting Chairman of the Management Board.

Proceedings Against the Directors and Management

At the date of this Prospectus, no member of the Board of Directors or Management Board for at least the previous five years:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Remuneration of Directors and Management

RusHydro remunerates and compensates the members of the Board of Directors in accordance with regulations approved by the General Meeting of Shareholders on 10 June 2009. The total sum of remuneration and compensation paid to members of the Board of Directors in 2008 was RUB 36.9 million.

RusHydro remunerates the Chairman of the Management Board and the members of the Management Board in accordance with the terms of their employment contracts, as determined by the Board of Directors. The total sum of remunerations paid to members of the Management Board and the Chairman of the Management Board in 2008 was RUB 59.6 million. Members of the Management Board participate in a private pension programme of RusHydro. As at 31 December 2008, RusHydro's aggregate pension contributions for members of the Management Board were RUB 0.8 million.

The employment contracts of the members of the Management Board provide for the payment of compensation in an amount equal to that member's actual remuneration for the preceding three months (or, upon a decision of the Board of Directors, up to for the preceding 12 months) upon termination of employment on certain grounds, including: (i) by mutual agreement of the parties; (ii) the transfer of a member of the Management Board, upon his consent or at his request, to another employer; (iii) at the request of a member of the Management Board due to his or her inability to continue service for medical reasons or upon retirement; and (iv) the refusal of a member of the Management Board to transfer to another position based on medical advice. The service contracts of the Directors do not provide for special benefits upon termination of employment.

Share Option Programme

The members of the Management Board participate in an option programme that was approved by the Board of Directors on 18 May 2007 (the "Option Programme"). The Option Programme provides for the granting of Share options at a predetermined exercise price to the members of the Management Board and other key employees of the Group. For the purpose of the Option Programme, in 2007 RusHydro issued to LLC ESOP, the Option Programme operator, 3,137,287,475 Shares, or approximately 1.23% of the current share capital of RusHydro, which represents the maximum amount of shares under the Option Programme.

As at 31 May 2009, Option Programme participants had entered into option agreements with respect to an aggregate of 2,752,755,951 Shares, of which options relating to 698,046,459 Shares have been granted to the current members of the Management Board. Under the terms of these agreements, the Option Programme participants can exercise the options from 2 September 2010 until 16 April 2011. The exercise price of the Share options is RUB 1.73 per Share, which is the price at which LLC ESOP purchased shares from RusHydro. As at 1 June 2009 the average weighted price of the Shares at MICEX was RUB 1.276.

Within one month of entering into a Share option agreement, each Option Programme participant was required to make a prepayment for the option Shares which, in the case of the members of the Management Board, amounted to 10% of the aggregate exercise price of such option Shares. If the right to exercise the Share option lapses (other than because the participant decided not to exercise it), the prepayment is returned to the participant in full. RusHydro issued interest free loans to the Option Programme participants to be used for the prepayments under the Share option agreements. An aggregate of RUB 218.5 million of such loans were issued with a maturity of 31

March 2011, of which the current members of the RusHydro's Management Board received RUB 120.8 million. As at 31 December 2008, there were RUB 120.8 million of outstanding loans to the current members of the Management Board and RUB 97.7 million to other employees of the Group in relation to the Option Programme.

If the employment of an Option Programme participant is terminated by the Group due to a breach of certain provisions of that participant's employment agreement, the Option Programme participant loses his or her right to purchase the Shares under the relevant Share option agreement. If the employment of an Option Programme participant is terminated on other grounds (including at the initiative of the participant), the number of Shares that such participant may purchase under his or her Share option agreement is pro rated based on the number of days worked prior to the termination of employment.

The Directors are not eligible to participate in the Option Programme.

Interests of Directors and Management

The following table shows the beneficial ownership of the Shares as at the date of this Prospectus of the current Directors and management:

Name	Number of Shares held	Percentage of Shares held
Eduard P. Volkov	89,299	0.000035%
Boris F. Vainzikher.....	21,570,561	0.0085%
Vasily A. Zubakin.....	31,111,710	0.0122%
Boris B. Bogush	28,247	0.0000001%
Oleg B. Oksuzian	18,871,037	0.0074%

Mr. Zubakin is also planning to acquire an additional 1,952,836 newly-issued Shares in July 2009.

In addition, the current members of the Management Board also hold the following options over Shares:

Name	Number of Shares represented by options held	Percentage of Shares
Vasily A. Zubakin.....	94,118,624	0.0369%
Konstantin V. Belyaev	86,275,405	0.0338%
Boris B. Bogush	86,275,405	0.0338%
Oleg B. Oksuzian	86,275,405	0.0338%
Aleksandr Y. Sergeyev.....	86,275,405	0.0338%
Aleksandr V. Toloshinov	86,275,405	0.0338%
Rasim M. Khaziakhmetov.....	86,275,405	0.0338%
Sergei A. Yushin	86,275,405	0.0338%

Seven members of the Board of Directors (Mr. Sergei Shmatko, Mr. Vladimir Tatsiy, Mr. Eduard Volkov, Mr. Sergei Maslov, Mr. Boris Vainzikher, Mr. Sergei Beloborodov and Mr. Vasily Zubakin, who is also acting Chairman of the Management Board) are also currently members of the board of directors of other service providers and participants in the Russian wholesale electricity market, including FSK, OJSC Holding MRSK, CJSC Centre of Financial Settlements, the Trade System Administrator, the Market Council, OJSC INTER RAO UES and/or energy sales companies, and Mr. Vainzikher is also the general director of TGK-1. These companies may now or in the future be service providers, competitors or customers of the Group on the Russian wholesale electricity market. In addition, Mr. Shmatko is the Minister of Energy of the Russian Federation, and Mr. Rasim Khaziakhmetov, a member of the Management Board, is currently a member of the Supervisory Board of Non-Commercial Partnership Hydropower of Russia, which may be a contractor for the Group. Other than these interests of Mr. Shmatko, Mr. Tatsiy, Mr. Volkov, Mr. Maslov, Mr. Vainzikher and Mr. Khaziakhmetov, as at the date of this Prospectus, there are no potential conflicts of interest between any duties owed to RusHydro by the Directors or members of the Management Board and their private interests and/or other duties.

Corporate Governance

RusHydro believes that compliance with high corporate governance standards is one of the key factors in improving the efficiency of its operations and one of the main instruments for protecting

the rights and observing the interests of its shareholders. RusHydro strives to continue to improve its standard of corporate governance. The corporate governance of RusHydro is designed to establish a positive practice of interaction between RusHydro, its management bodies and shareholders, as well as to identify and minimise corporate governance risks.

Corporate governance of RusHydro has historically been carried out in accordance with the Joint Stock Companies Law, other regulatory acts governing operations of joint stock companies in the Russian Federation, the Articles of Association and other internal documents. RusHydro complies with the corporate governance regime of the Russian Federation, including the recommendations of the Code of Corporate Governance of the Federal Securities Commission of Russia, although many concepts of corporate governance that are prevalent in western Europe and the United States are considerably less developed in Russia. See “Risk Factors -Risks relating to Russian securities markets and laws and regulations governing them – Corporate governance standards in Russia are less developed than those in western Europe or the United States, and there is only limited protection of minority shareholders in Russia”.

RusHydro’s Code of Corporate Governance

The Board of Directors approved a new version of RusHydro’s Code of Corporate Governance (the “Code”) in October 2008. The Code contains the following principles:

Accountability

The Board of Directors is accountable to all of the shareholders of RusHydro in accordance with applicable legislation. In developing RusHydro’s strategy and exercising management and control over RusHydro, the Board of Directors is guided by the Code. The Management Board and the Chairman of the Management Board are accountable to the Board of Directors and to all of the shareholders of RusHydro.

Fairness

RusHydro undertakes to protect the rights of, and to ensure equality for, all shareholders. The Board of Directors provides all shareholders with an opportunity to receive effective protection in the event of an infringement of their rights.

Transparency

RusHydro provides for the timely disclosure of information about all material facts relating to its activities, including its financial status, social and environmental indicators, the results of its activities and its ownership and management structure, as well as free access to such information.

Good Faith

All shareholders, RusHydro, its bodies, officials and other interested parties should exercise their rights in good faith and avoid abusing their rights.

In the development of the principles of the Code outlined above, the Board of Directors has approved internal regulations relating to the disclosure of information, the use of insider information and compliance and risk management.

Independent Directors

RusHydro considers three of the current Directors, Sergei Serebryannikov, Oleg Surikov and Viktor Danilov-Danilyan, to be independent Directors in accordance with the U.K. Combined Code on Corporate Governance. An additional two Directors, Vladimir Tatsiy and Boris Vainzikher, would be considered independent Directors based purely on the independence criteria required by the FSFM with respect to Russian listed companies, which criteria differ in certain respects from western European or US standards, including the U.K. Combined Code on Corporate Governance.

Corporate governance of the Group

RusHydro has approved a procedure for its interaction with other companies in which it has an ownership interest. The procedure regulates:

- RusHydro’s exercise of (i) its shareholder rights at general meetings of shareholders of such companies, and (ii) its rights on any boards of directors and internal audit commissions of such companies; and

- the interaction between RusHydro and such companies in relation to corporate planning and decision-making, particularly in circumstances where the Articles of Association require RusHydro's input, such as those relating to:
 - the determination of the agenda for general meetings of shareholders of such companies;
 - reorganisations or liquidations of such companies;
 - increases of the share capital of such companies, including the determination of the quantity, par value, and class or type of authorised shares and the rights granted by such shares;
 - the approval of major transactions by such companies; and
 - the participation by such companies in other organisations.

INDUSTRY OVERVIEW

Overview

As indicated in the table below, Russia's power sector is among the largest in the world, ranking fourth in 2007 in terms of both installed electricity capacity, which amounted to 221.4 GW as at 1 January 2007, and electricity output, which amounted to 1,015 billion kWh for the year ended 31 December 2007:

Country	Installed electricity capacity as at 1 January 2007 (GW)	Country	Electricity output for the year ended 31 December 2007 (billion kWh)
1. USA ⁽¹⁾	977.1	1. USA ⁽⁴⁾	4,368
2. China ⁽¹⁾	623.6	2. China ⁽⁴⁾	3,278
3. Japan ⁽¹⁾	253.6	3. Japan ⁽⁴⁾	1,160
4. Russia ⁽²⁾	221.4	4. Russia ⁽²⁾	1,015
5. India ⁽³⁾	128.2	5. India ⁽⁴⁾	775
6. Germany ⁽¹⁾	126.7	6. Germany ⁽⁴⁾	637
7. Canada ⁽¹⁾	125.6	7. Canada ⁽⁴⁾	602
8. France ⁽¹⁾	111.9	8. France ⁽⁴⁾	567
9. Brazil ⁽¹⁾	96.6	9. South Korea ⁽⁴⁾	440
10. U.K. ⁽¹⁾	80.4	10. Brazil ⁽⁴⁾	434

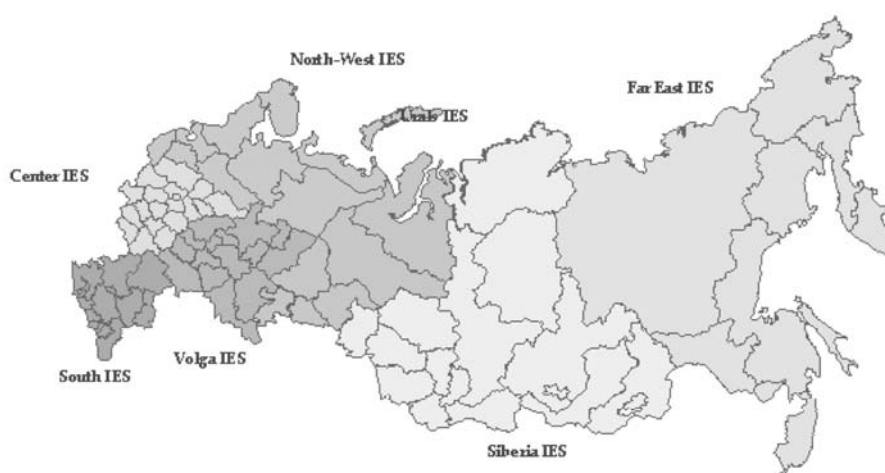
1. U.S. Energy Information Administration.

2. Rosstat.

3. Ministry of Power of India (information as at January 31, 2007).

4. BP Statistical Review of World Energy June 2008.

The Russian power sector consists of power plants, power grids and related facilities – the so-called Unified Energy System of Russia covering most of the Russian Federation – and it is supplemented by an isolated Integrated Energy System in the far east of Russia. The Unified Energy System of Russia consists of six IESs located in north-west, central and south Russia, the Urals, Volga and Siberia. The map below illustrates the location of each IES:



Electricity capacity and output

As at 1 January 2009, Russia's aggregate installed electricity capacity included thermal power plants (145.4 GW), hydrogenation (47.2 GW) and nuclear generation (23.5 GW). The table below shows the installed electricity capacity of Russian thermal, hydro and nuclear power plants for the periods indicated:

Installed electricity capacity (million kW)	As at 31 December		
	2006	2007	2008
Thermal power plants.....	151.5	145.3	145.4
Hydro power plants.....	46.1	46.1	47.2
Nuclear power plants.....	23.7	24.0	23.5
Total.....	221.4	215.4	216.1

Sources: Rosstat, the System Operator

Following the collapse of the Soviet Union, the Russian power sector suffered a decline in electricity production from 1,068 billion kWh in 1991 to 826 billion kWh in 1998, according to the BP Statistical Review of World Energy dated June 2009. In the years following 1998, electricity output in Russia grew at an average annual rate of approximately 2.3%, with the peak rate of increase of 4.5% in 2006 according to the BP Statistical Review of World Energy dated June 2009.

According to the System Operator, for the year ended 31 December 2008 the total electricity output in Russia was 1,023 billion kWh. Of this 2008 total, thermal power plants accounted for 688 billion kWh, hydrogenation for 157 billion kWh, and nuclear generation for 163 billion kWh.

The table below shows production of electric power in Russia for the periods indicated:

Electricity output (billion kWh)	2006	2007	2008
Russia.....	996	1,015	1,023
Thermal power plants.....	664	676	688
Hydro power plants.....	175	179	157
Nuclear power plants.....	156	160	163

Sources: Rosstat, the System Operator

Electricity Consumption

Until the onset of the current global economic crisis, the Russian Federation experienced significant economic growth since the end of the 1990s. Between 1998 and 2008, Russia's GDP grew at a compounded annual growth rate of 6.8%, making Russia one of the fastest growing economies in the world. Russia's GDP for the year ended 31 December 2008 reached approximately RUB 41.7 trillion.

The table below illustrates Russia's GDP annual growth/(decline) rate, electricity output and electricity consumption for the periods indicated:

Year	GDP Annual Growth/ (Decline) Rate (%)	Electricity Output (billion kWh)	Electricity consumption per capita (kWh/capita/month)	Electricity consumption (kWh per RUB thousand of GDP)
1998	(5.3)%	827	457.6	52.0
1999	6.4%	846	472.0	50.3
2000	10.0%	878	491.3	47.5
2001	5.1%	891	499.6	45.8
2002	4.7%	891	503.6	43.8
2003	7.3%	916	520.4	41.9
2004	7.2%	932	535.3	39.5
2005	6.4%	953	547.2	37.9
2006	7.4%	996	574.2	36.7
2007	8.1%	1,015	548.7	28.3
2008	5.6%	1,023	580.0	23.7

Source: Rosstat, the System Operator

This period of economic recovery in Russia contributed to an increase in the total electricity consumption from 827 billion kWh in 1998 to 992.6 billion kWh in 2008.

The table below shows a geographical breakdown of electricity consumption, by volume and share of total consumption, in the zone of centralised energy supply of Russia for the periods indicated.

	2006		2007		2008	
	Volume	Share	Volume	Share	Volume	Share
	<i>(billion kWh; share in %)</i>					
Russia, comprising	947.2	100.0	968.9	100.0	992.6	100.0
North West IES.....	87.0	9.2	89.3	9.2	91.3	9.2
Central IES.....	213.3	22.5	217.7	22.5	224.5	22.6
South IES	76.4	8.1	78.5	8.1	80.6	8.1
Middle Volga IES..	105.3	11.1	107.2	11.1	109.6	11.0
Urals IES	241.7	25.5	248.7	25.7	254.6	25.6
Siberia IES.....	196.2	20.7	199.9	20.6	204.4	20.6
East IES.....	27.3	2.9	27.6	2.8	27.6	2.8

Source: CJSC Agency for Forecasting Balances in Power Sector

The demand for electricity can vary depending on weather conditions (especially between different seasons) and the time of day. These fluctuations in the seasonal and daily consumption influence electricity prices on the free market.

Infrastructure

Despite the general increase in the consumption of electricity in the post-Soviet era, there have only been limited investments in generation facilities and transmission and distribution infrastructure during this period, with only very few projects, primarily state-funded, completed to offset the growing demand and the electricity capacity decline. The power sector in Russia, as a whole, is in need of investments to retain supply stability and to cope with demand.

Electricity capacity deficit

Growing electricity demand in Russia may lead to a future electricity capacity deficit. The fluctuating nature of electricity demand, which varies widely season by season and within any given day, makes it essential that Russia's energy system be able to cover peak moments of demand in every region to avoid blackouts.

The table below shows maximum loads in each IES for the periods indicated.

	2006	2007	2008
	<i>(million kW)</i>		
Zone of Centralised Energy Supply.....	150.6	148.7	154.1
Unified Energy System of Russia, comprising:	148.6	146.5	151.9
North West	14.3	13.4	13.8
Central	39.0	33.9	36.1
South.....	13.2	12.3	13.8
Middle Volga	14.0	17.1	17.6
Urals.....	34.7	36.3	35.3
Siberia	28.6	28.7	30.2
Far East	4.8	4.8	5.1
Isolated Energy System of the Far East.....	2.2	2.2	2.2

Source: CJSC Agency for Forecasting Balances in Power Sector

Russia's peak load for the year ended 31 December 2008 comprised 72% of Russia's total installed electricity capacity (216 GW). Nonetheless, a deficit may develop as a result of various deficiencies in the electricity system, including the following:

- grid constraints could restrict potential electricity capacity flows between generators and electricity consumers, leading to a requirement for each IES to maintain minimum reserve margins; and

- network electricity losses and grid failures put further pressure on required reserve margins.

The maximum load factor, reflecting peak electricity capacity demand in the economy, almost reached its historical maximum in the winter of 2005/2006, and acute regional shortages are expected in the near term. Moreover, in some of the regions that were characterised by strong economic growth, the peak electricity capacity demand exceeded its previous historical peak. Some regions, including Moscow, St. Petersburg and Tyumen, had to impose restrictions on electricity consumption in the winter of 2005/2006 due to electricity capacity shortages.

In 2008, the Government approved the General Plan for Allocation of Electricity Industry Facilities by 2020 which sets the main investment priorities for the Russian power sector. One option under this plan contemplates that up to 236 GW of new installed capacity may be commissioned by 2020, which is more than the current installed capacity of all Russian power plants (216 GW at 31 December 2008).

Sector Reform

In recent years, the Russian electricity industry has undergone a major restructuring as mandated 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 was aimed to (i) reform the market structure, (ii) implement the liberalisation of the competitive segments of the power sector, including generation, sales, and repairs and servicing, and (iii) improve regulatory pricing for the non-competitive lines of business of the power sector.

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

In parallel with the power sector restructuring, RAO UESR attracted private investments in the thermal generation companies (OGKs and TGKs) by way of public offerings or private sales, so as to fund large investment programmes of these companies. Large investors who participated in this process were given opportunities to buy additional shares from RAO UESR and obtain control in OGKs or TGKs in order to encourage competition among the generation companies. See “ - Current Industry Structure”.

The current regulatory regime contemplates that there will be a gradual expansion of the competitive segment of the electric power sector, and consequently, a reduction in the portion of the market that is subject to tariff regulation. The sector reform provides for the development of a fully-liberalised market for electricity generation, retail and related services by 2011, in which electricity prices will be established on the basis of supply and demand. The current process of liberalisation does not extend to residential consumption and the Far East region, which remain subject to regulated tariffs, nor does it currently contemplate the creation of a free market for transmission, distribution and dispatch services.

Current Industry Structure

The electricity generation sector is currently principally comprised of the following types of power plants:

- *Thermal power plants.* This type of generator includes fossil-fuel-powered plants using natural gas, coal and/or fuel oil, producing either electricity or both electricity and heat. The thermal power plants are owned by OGKs, TGKs and other energy companies, including OJSC RAO East Energy Systems, OJSC Tatenergo, OJSC Bashkirenergo and OJSC Irkutskenergo;
- *Hydro power plants.* These plants are owned by RusHydro, which owns more than 50% of the installed capacity of Russian hydro power plants, as well as several TGKs (TGK-1, TGK-8 and TGK-9), OJSC Tatenergo, OJSC Irkutskenergo, OJSC RAO East Energy Systems and OJSC Bashkirenergo;
- *Nuclear generation complexes.* Russian nuclear generators are owned and operated by Energoatom Concern; and

- *Other power units.* These include renewable energy plants owned by RusHydro and other generation companies, including OJSC Bashkirenergo and OJSC RAO East Energy Systems.

OGKs

In the course of the power sector reform, the large thermal power plants which generate mostly electricity, formerly owned by RAO UESR or the AO-Energos, became assets of the OGKs. The OGKs are the largest generators in the wholesale electricity (capacity) market except for RusHydro and Mosenergo. The OGKs have the following characteristics:

- *Large scale:* each OGK has an installed electricity capacity of 8.5 to 9.5 GW;
- *Similar specifications:* each OGK has substantially similar initial specifications in terms of installed capacity, value of assets and average equipment wear; and
- *Extra-territoriality:* plants comprising each OGK are located in different regions to minimise the possibility of competition abuse in the wholesale electricity (capacity) market.

As a result of attracting private capital to the power generation sector, all the OGKs (except for OGK-1) became controlled by private investors, including Gazprom (which controls OGK-2 and OGK-6), Norilsk Nickel (which controls OGK-3), E.ON (which controls OGK-4) and Enel (which controls OGK-5). The sale of OGK-1 to a private investor has not been completed and the OGK-1 shares are currently held by state-controlled RusHydro and FSK.

The OGKs primarily compete with each other, RusHydro and the TGKs on the wholesale electricity (capacity) market. See “Industry Overview – Current Industry Structure”. The table below shows selected operational and production information for each of the OGKs for 2008:

OGK	Electricity capacity (MW)	Fuel Mix	Electricity output (GWh)
OGK-1	9,531	Gas/Coal	51,500
OGK-2	8,695	Gas/Coal	49,827
OGK-3	8,357	Gas/Coal	33,912
OGK-4	8,630	Gas/Coal	56,676
OGK-5	8,732	Gas/Coal	43,005
OGK-6	9,052	Gas/Coal	38,857

Source: OGKs’ websites

TGKs

In the restructuring, the majority of the remaining thermal power plants that were owned by RAO UESR became assets of the TGKs, divided according to territory. The 14 TGKs are comprised primarily of combined cycle regional heat and power plants that generate both electricity and heat; however, TGK-1, TGK-8 and TGK-9 also own mid-sized hydro power plants.

As a result of attracting private capital, TGKs are now controlled by different groups of investors, including Gazprom (TGK-1 and Mosenergo), IES-Holding (TGK-5, TGK-6, Volga TGK, TGK-9), SUEK (Kuzbassenergo and TGK-13), Lukoil (TGK-8), Onexim (TGK-4), Fortum (TGK-10), Sintez (TGK-2), E4 Group (TGK-11) and Russian Railways (TGK-14).

Since the TGKs generally own or lease heat grid infrastructure, as well as generation facilities, they are currently both wholesale electricity (capacity) market participants and dominant in their respective retail heat markets.

The following table sets forth key information regarding each of the TGKs for 2007:

TGK	Electricity capacity, 2007 (MW)	Fuel Mix	Electricity output, 2007 (GWh)	IES
TGK-1	6,278	Gas	26,888	North-West IES
TGK-2	2,577	Gas/Coal	10,530	Central, North-West IES
Mosenergo	11,904	Gas/Coal	64,274	Middle Volga IES
TGK-4	3,348	Gas	12,878	Central IES
TGK-5	2,467	Gas/Coal	11,288	Middle Volga IES
TGK-6	3,113	Gas	13,083	Central, Middle Volga IES
Volga TGK	5,851	Gas	22,548	Middle Volga IES
SGK TGK-8.....	3,602	Gas	14,660	South IES
TGK-9	3,280	Gas/Coal	16,340	Urals, Middle Volga, North-West IES
Fortum (formerly TGK-10)	2,785	Gas/Coal	16,600	Urals IES
TGK-11	2,026	Gas/Coal	9,398	Siberia IES
Kuzbassenergo.....	4,400	Gas/Coal	23,635	Siberia IES
TGK-13	2,518	Coal	14,236	Siberia IES
TGK-14	633	Gas/Coal	2,500	Siberia IES

Source: TGKs' websites.

RusHydro

The installed capacity of power plants owned by RusHydro was 25,336.6 MW as at 31 December 2008. The electricity output of RusHydro amounted to 80,273 million kWh in 2008.

Independent producers

Other key power generators include five independent generation companies – Irkutskenergo, Tatenergo, Bashkirenergo, Novosibirskenergo and Taimyrennergo – which were not controlled by RAO UESR.

Energoatom Concern

Energoatom Concern is the sole authorised owner and operator of nuclear power plants in Russia. Energoatom Concern was initially established in 1992 and until 2008 was known as the Federal State Unitary Enterprise “Russian State Concern for Generation of Electricity and Heat Power at Nuclear Power Plants (Rosenergoatom)”. All of the share capital of Energoatom Concern is indirectly owned by the Russian Federation. Energoatom Concern currently operates ten nuclear plants with a total installed electricity capacity of approximately 23,242 MW. For the year ended 31 December 2008, Energoatom Concern produced approximately 162,291.3 million kWh of electricity.

Transmission Companies

High voltage power lines in Russia are operated by FSK, which is 77.66% owned by the Russian Federation.

Distribution Grid Companies

The vast majority of medium- and low-voltage distribution networks are currently consolidated into 11 Inter-Regional Distribution Companies (MRSKs) which are controlled by OJSC Holding MRSK, a company created as a result of the restructuring of RAO UESR and controlled by the Russian Federation.

Energy Retail Companies

Russian retail customers currently purchase electricity from electricity retail companies, which have been spun off from the AO-Energos and sold by RAO UESR in public auctions, as well as independent electricity retail companies. Since 31 March 2007, all the former AO-Energo sales companies are obligated to enter into a contract with any end retail consumer on demand, and are known as “Guaranteeing Suppliers”. See “–Overview of the Electricity Market- Retail Electricity Market”.

Service Providers in the Electricity (Capacity) Market

The System Operator

In 2004, all dispatching functions of the Russian electricity sector, previously performed by the regional dispatch administrations, were transferred from the AO-Energos to the System Operator. The System Operator is a specialised company which provides management services to all market participants in relation to the dispatch of electricity and provides forecasts regarding the generation and consumption of electricity. The Russian Federation holds 100% of the shares in the System Operator.

In particular, the System Operator establishes a dispatch priority classification system to enable it to fulfil its responsibility for the maintenance of the sufficiency, stability and flexibility of the electricity supply and the minimisation of the cost of electricity supply. In formulating this classification system, the System Operator ranks all generators in a so-called merit order, which prescribes the order in which these stations receive load, assuming there is sufficient demand. The general principal dispatch priority categories are as follows:

- *Base load generation.* This category of generator encompasses facilities that are allocated the highest loads, either due to extraordinarily high efficiency, system safety issues (for example, technological minimum load requirements) or lack of flexibility (for example, if a particular generator cannot quickly change load on demand and is therefore incapable of adjusting effectively to cover peak loads). Base load generation facilities include nuclear capacity, hydro capacity in the post-winter thaw season, TSK stations only when they operate in “combined cycle” (joint generation of electricity and heat) and certain coal-fuelled stations. Base load generation traditionally enjoys high load factors throughout the year, but this category is generally insufficient to cover total electricity demand.
- *Mid-load generation.* Mid-load generators are those generators that are typically dispatched if their variable costs lie below those of the least efficient generators needed to satisfy electricity demand (taking into account grid constraints). This category effectively encompasses all thermal generation facilities of the OGCs. The main competition in the wholesale electricity (capacity) market occurs in this dispatch priority category. Depending on their placing within the merit order and the prevailing price on the spot market, a mid-load generator could enjoy varying levels of load through the year, with the most efficient generators benefiting from a preferred position in the market.
- *Peak generation.* Peak generators are those generators which are called upon only at times of peak electricity demand to cover whatever deficit still exists after base load generation and mid-load generators have already been dispatched. This category generally includes the most inefficient thermal electricity capacity, including TSK stations operating in electricity-only condensation mode, certain categories of hydro electricity capacity (for example, hydroaccumulating power plants) and those power plants which have the ability to vary their load significantly in order to sell at times of peak prices.

As a result, the electricity capacity utilisation rate and competitive position of a power plant in the wholesale market are significantly influenced by its ranking in the dispatch priority classification system.

Market Council

The Market Council is a self-regulated organisation which maintains the Register of the Wholesale Market Participants, organises pre-trial dispute resolutions in the wholesale market, supervises the System Operator and its relations with market participants, participates in the preparation of the rules of the wholesale market and monitors compliance with the rules. The Market Council is as a non-profit partnership whose members are participants in the electricity (capacity) wholesale market.

Commercial Operator

The Commercial Operator manages organisations of the trading system of the wholesale electricity (capacity) market. Currently, the functions of the Commercial Operator are performed by the Trade System Administrator, which is 100% owned by the Market Council.

Tariffs

Sales of electricity and capacity are subject to tariff regulation in Russia, although a major part of the reform of the electricity sector is the introduction of a gradually liberalised pricing structure for the supply of electricity. The FST is responsible for setting tariffs for:

- electricity and capacity traded under the Regulated Contracts on the wholesale electricity (capacity) market;
- electricity transmission within the trunk grid;
- services to ensure the reliability of electricity energy systems;
- electricity system dispatching services of the System Operator; and
- the electricity (capacity) wholesale market services of the Commercial Operator.

The FST also sets minimum and maximum levels of tariffs for electricity distribution and electricity sold on the retail market.

Until 2008, the Governmental authorities calculated tariffs based on the method of economically reasonable expenses. According to this method, the authorities calculated the tariffs on the basis of the gross sales revenue, calculated in accordance with RAS, that a generation company needed for the relevant period in order to cover specified expenses, including:

- purchases of fuel;
- purchases of electric and heat power;
- services rendered within the wholesale and retail markets of electric and heat power;
- purchases of raw materials;
- repairs of equipment;
- payment of salaries of staff and for social disbursements;
- amortisation of capital assets and intellectual property; and
- other expenses, including income tax payments.

Since 2008, the FST has established the tariffs for the electricity wholesale market using indexation based on various factors that influence the costs of generation companies, including price inflation, fuel expenses (for thermal power plants) and changes in taxation regime. It is expected that this tariff calculation system will provide generation companies with additional incentives to introduce cost reduction programmes and, as a result, increase the profitability of their operations.

Approved tariffs must be valid for a period of at least twelve months, with the exception of tariffs for services to ensure the reliability of electrical energy systems. Electricity tariffs may be regulated on a long-term basis over a period of not less than five years (or not less than three years upon the establishment of a tariff or tariff limit) in the manner prescribed by the Government.

Overview of the Electricity Market

The Russian electricity market consists of wholesale and retail markets within the existing and contemplated market frameworks, and capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

Wholesale Electricity (Capacity) Market

The wholesale market encompasses nearly the entire territory of the Russian Federation and provides a framework for the trading of electricity and capacity. The wholesale market is a system of contractual relationships between all of its participants, which are linked together by the processes of production, transmission and consumption of electricity and capacity within the Unified Energy System of Russia. See “Industry Overview – Overview”.

The wholesale market is divided into two principal pricing zones within the Unified Energy System of Russia because of electricity grid limitations between Siberia and the western parts of Russia:

- the first pricing zone includes the Central IES, North-West IES, Middle Volga IES, South IES and Urals IES; and

- the second pricing zone consists of the Siberia IES.

Electricity and capacity in areas that are not included in any wholesale market pricing zone, e.g. in the Far East, are sold at regulated tariffs.

Wholesale market participants mainly include:

- sellers of electricity and capacity, including generation companies (the OGKs, RusHydro, TSKs and various other generators) and electricity retail companies (energy traders) which re-sell in the market electricity and capacity bought from other market participants; and
- purchasers of electricity and capacity, including major power consumers, electricity retail companies (energy traders) and generation companies, which, at certain points in time, may purchase electricity in the market, rather than generate such electricity, to fulfil their supply obligations under existing contracts.

The infrastructure of the wholesale electricity market is operated by the Market Council, the Commercial Operator, CJSC “Centre of Financial Settlements” (a subsidiary of the Market Council responsible for clearing payments in the market), the System Operator and FSK. A company that intends to participate in the sale or purchase of electricity in the Russian electricity wholesale market must register with the Market Council as a participant in the wholesale market subject to meeting certain requirements relating to its electricity generation or receiving facilities.

Violations of the rules of the electricity wholesale market may result in the removal of the company from the Register of Wholesale Market Participants.

Market reform

As mentioned above, the structure of the wholesale power market was reformed with effect from September 2006. The following summarises the market both before and after the reform:

Former Wholesale Power Market

After the 1990s, and prior to 1 September 2006, the wholesale power market provided a framework for trading of electricity in the following three segments:

- *Regulated sector*: electricity was traded at tariffs set by the FST using a “cost plus” methodology approach based on generation cost estimates (the annual forecasts of electricity volumes to be generated or consumed by each market participant). Electricity tariffs for generators were two-tiered and included a capacity payment and an electricity payment. Electricity capacity payments covered 85% of fixed costs of power generation and payments for generated electricity covered fuel and other variable costs. Capacity payments represented a “standby” compensation for a generator’s ability to generate electricity regardless of whether it actually did so. Electricity tariffs for purchasers depended on their annual electricity consumption.
- *Free trade sector (spot market)*: represented a “one-day-ahead” spot market on which generators were permitted to contract the electricity output of up to 15% of their installed electricity capacity while purchasers were permitted to submit price bids for each hour of the next trading day for no more than 30% of their planned electricity consumption volumes. The Trade System Administrator (the predecessor of the Commercial Operator) matched these bids and offers using certain minimum price criterion, thus determining free sector electricity trade volumes and prices for each hour of the day. The electricity volumes traded on the spot market were limited. Historically, the free trade segment represented only 7-8% of the total Russian annual electricity consumption, as purchasers had no obligation to trade in this segment since they could purchase all their electricity requirements in the regulated sector at FST tariffs. Generation companies, on the other hand, had incentives to trade on the spot market as 15% of their fixed costs were not covered by the capacity payments in the two-tiered tariffs that applied to trades in the regulated sector. In practice, in the free trade sector, generators set their prices for both capacity and electricity payments below the level of the end-user tariffs in the regulated sector for wholesale purchasers since wholesale purchasers could buy all of their required electricity and capacity in the regulated sector.

- *Balancing sector*: this was designed to eliminate any “real time” discrepancies in the supply and demand of electricity caused by deviations of actual consumption volumes from planned volumes of generation. The System Operator and the Trade System Administrator attempted to balance supply and demand in real time based on price offers from generators and bids from purchasers.

New Wholesale Power Market

On 31 August 2006, the Government adopted the New Wholesale Market Rules. As a result, a “transitional period” commenced on 1 September 2006 pending full liberalisation of the sector. On 30 November 2006, the Government supplemented the New Wholesale Market Rules by the schedule for introducing full liberalisation of the wholesale market expressed as percentages of electricity included in the aggregate electricity (electricity capacity) balance for 2007 approved by the FST.

The New Wholesale Market Rules introduced significant changes to the former wholesale market for the transitional period prior to the anticipated full liberalisation of the sector in 2011 (except for electricity required for residential consumption). Currently, electricity is traded on the basis of the following trading mechanisms:

- Regulated Contracts;
- Unregulated bilateral contracts;
- “One-day-ahead” market (spot market); and
- Balancing market.

Each of these mechanisms is considered below:

Regulated Contracts

The former regulated sector of the wholesale market was replaced in September 2006 with a system of Regulated Contracts. Regulated Contracts are effectively take-or-pay obligations at a regulated tariff for electricity and capacity volumes and represent an interim step in the transition from a regulated environment to competitive pricing.

According to the New Wholesale Market Rules, the volumes of electricity to be covered by Regulated Contracts was declining semi-annually to 45-50% of each generator’s planned annual output (based on the FST forecast balance for 2007) in the second half of 2009 and are expected to decline further according to the following schedule:

- from 1 January 2010 – up to 35-40%;
- from 1 July 2010 – up to 15-20%; and
- from 1 January 2011 – 0%, i.e. the wholesale electricity (capacity) market is expected to be fully liberalised.

The approved timetable for electricity market liberalisation in Russia envisages that, by 1 January 2011, the wholesale market will be fully liberalised (excluding volumes of electricity required for residential consumption).

The volumes of planned generation that are not required to be traded under the Regulated Contracts may be contracted under unregulated bilateral contracts or traded in the “one-day-ahead” spot market or the balancing market. Moreover, in addition to the annual liberalisation of a specific percentage of the annual planned generation volumes, all electricity output in excess of such planned output as reflected in 2007 FST forecast output balance may be traded at unregulated prices. All electricity output produced by generation facilities commissioned after 2007 are exempt from the regime of Regulated Contracts and may be sold at unregulated prices.

The parties to Regulated Contracts are determined by the Commercial Operator and contracts are registered with the Commercial Operator.

The sellers under the Regulated Contracts are required to cover the volumes prescribed in the Regulated Contracts either through their own generation or through their purchase of electricity on the “one-day-ahead” or balancing markets at prevailing market prices. If a buyer requires additional power, it can buy it on the “one-day-ahead” or balancing markets market at current market prices. If the buyer cannot consume the full volume of electricity as stipulated by its Regulated Contract, it must still pay in full and seek to recover its costs through the sale of its excess contracted volumes on the spot market.

The parties to Regulated Contracts may change the contracted volumes of electricity to be supplied and payment schedules (pursuant to the established procedure). A buyer is entitled to reduce unilaterally the volumes of electricity purchased but this should cover all Regulated Contracts concluded by such buyer. The amount of reduction may vary depending on maximum and minimum volumes of electricity to be bought or sold at FST tariffs set for a respective period of time.

Each year, the supplier and purchaser under a Regulated Contract have an option to terminate their contract upon mutual agreement. Should this option be exercised, the generator will be free to sell its released electricity or capacity volumes under unregulated bilateral contracts at free-market prices or on the spot market. Similarly, the customer will have to cover its demand by purchases under unregulated agreements for the sale and purchase of fluctuations at free-market prices or on the spot market. For the remainder of the respective year, neither party may revert to the Regulated Contract. However, at the beginning of the following year, the parties may elect to enter into a new agreement.

Unregulated bilateral contracts

Participants in the wholesale market may sell electricity under unregulated contracts at unregulated prices. Electricity prices and volumes sold under unregulated bilateral contracts are negotiated between the supplier and the purchaser. Unregulated contracts and any amendments thereto are required to be registered with the Commercial Operator.

“One-day-ahead” market (spot market)

The New Wholesale Market Rules introduced a spot market for those suppliers and consumers who wish to buy or sell volumes of electricity on a free market basis or who did not enter into a Regulated Contract for whatever reason. The volumes of electricity scheduled for consumption and production that are not included in the Regulated Contracts are traded each hour at unregulated prices. The participants in the wholesale market may submit price bids for buying or selling electricity for a certain volume and price for each hour of the next day. The Commercial Operator selects the winning bids using the minimum price criteria, and thus determines electric power volume and equilibrium price (i.e., the price which balances supply and demand) for each hour of the following day.

After the equilibrium prices and volumes are determined, the participants may submit price-confirmation bids, confirming their intention to sell or buy electricity at the determined volumes and equilibrium prices. The price-confirmation bids are to be rejected if there is no technical feasibility to supply electric power volumes specified in the price-confirmation bids, or the total volume of the electricity specified in the price-confirmation bids of purchasers exceeds the total volume of electricity specified in the price-confirmation bids of suppliers.

Balancing Market

The balancing system is a real time market for electricity based on competitive bids submitted by suppliers and market participants, which is intended to cover the deviations from planned power volumes on the “one-day-ahead” market from the actual generated or consumed volumes.

Electricity Capacity Market

Since the introduction of the New Wholesale Market Rules, electricity capacity has been sold separately from electricity. The purpose of treating capacity as a separate commodity is to improve the efficient operation and timely commissioning of generation facilities. Furthermore, customers on the wholesale market are required to purchase capacity.

At present, capacity is sold on the wholesale market under Regulated Contracts, unregulated contracts and pursuant to the procedure of competitive selection of bids. When selling capacity, generation companies are obliged to maintain their generation equipment in good condition so that they are able to produce electrical power in the required volume and to the required specification at any time. If the obligation to maintain generation equipment in good working order is not fulfilled by a generation company, the price of its capacity will be reduced.

Since 2008, there has been a liberalisation in the sale of capacity, namely, a reduction in the volume of electricity capacity sold under Regulated Contracts similarly to liberalisation of electricity (see “Industry Overview – Overview of the Electricity Market – Market Reform – New Wholesale Power Market – Regulated Contracts”). From 1 July to 31 December 2009 the proportion of capacity sold under Regulated Contracts amounts 45-50%. Remaining capacity, as well as electricity capacity from all power plants commissioned in 2008 or later, will be sold at unregulated prices.

Until 2011, when full liberalisation of the capacity market is expected, excessive capacity not covered by Regulated Contracts and new capacity will be sold through one of the following two mechanisms:

- *Sale of capacity to customers based on competitive selection of bids for capacity.* Under this procedure, the System Operator selects customer bids and determines the demand for capacity in a certain region for a certain period. To take part in the competitive bid process, suppliers submit their bids to the System Operator, although the tendered price may not be higher than the maximum FST tariff for the respective supplier for the respective year. The System Operator selects the suppliers, which stated the lowest price in their bid and which ensure the necessary available capacity with the required technical resources. The sum of all of the price bids made by suppliers in a particular pricing zone is divided by the Commercial Operator on the required capacity volume. This is the price at which the Commercial Operator sells capacity to customers, and suppliers are then paid at the capacity price indicated in their bids.
- *Sale of capacity to customers under unregulated contracts (prices and volumes are agreed by the parties to the contract).* Those capacity suppliers who did not win in the competitive bid process may only sell the capacity not covered by the Regulated Contracts under unregulated bilateral contracts.

Wholesale Market Competition

Competition for sales of both capacity and electricity is expected to develop in line with the increasing liberalisation and privatisation of the sector. Capacity payments are intended to cover fixed operating costs, and, therefore, the generator's ability to compete in the capacity market depends largely on control of overhead and semi-variable costs. Electricity prices, on the other hand, are intended to cover mainly variable costs such as fuel, and, as a result, competitive advantages in this market are largely dependent on control of variable costs.

As a general rule, thermal generation determines equilibrium electricity price levels in the free sector. However, hydro and nuclear generation facilities also contribute to seasonal pricing fluctuations. In particular, hydrogenerators such as the Group increase supply in the April to September period, while nuclear plants operate more during the peak winter period. Since transportation of electricity over long distances is accompanied by growing losses and rising costs, primary competition usually occurs within specific pricing zones or even within specific electricity zones.

Retail Electricity Market

The new retail market rules introduced by the Resolution of the Government "On Approval of the Rules for the Operation of the Retail Electricity (Capacity) Markets during the Transitional Period" No. 530 dated 31 August 2006 (the "New Retail Market Rules") govern the interaction between wholesale and retail market participants during the transition period of the electricity industry's restructuring. The rules for retail market operation set out the new pricing principles for the retail electricity market. It is envisaged that the deregulation of the retail electricity market will be carried out in conjunction with the deregulation of the wholesale market so that end consumers of electricity are provided with adequate information on the actual cost of electricity. All consumers, except for households and similar consumer groups (referred to as "residential consumers"), have started to purchase part of their electricity needs at unregulated prices. Residential consumers will continue to pay for electricity at the tariffs set by the state regulator until at least 2011. As a result of the structural transformations in the electric power industry, the retail markets currently include sales companies that, unlike the former AO-Energos, do not generate electricity but purchase it from generation companies on the wholesale electricity market. The changes in retail market rules depend greatly on changes in the wholesale market because of the transition to the system of Regulated Contracts, which should gradually result in the liberalisation of electricity (electricity capacity) trading.

Principles

The main principles of the operation of the retail electricity markets are that:

- end-consumers have the right to decide from which sales company they buy electric power at unregulated prices;
- Guaranteeing Suppliers are obliged to enter into a contract at the request of any end-consumer;

- unregulated prices for end-consumers are set freely by all market participants, except for Guaranteeing Suppliers; and
- there should be competition between retail power producers.

The New Retail Market Rules give consumers an opportunity to choose their energy retail company. However, not all electricity retail companies are under an obligation to enter into contracts with requesting consumers, only Guaranteeing Suppliers have this obligation.

Guaranteeing Suppliers will be appointed pursuant to the public tender procedures. It is expected that the first public tender will take place before 2012. Pending these public tenders electricity retail companies, which have been spun-off from the AO-Energos, including the electricity retail companies of the Group, have been appointed Guaranteeing Suppliers. Guaranteeing Suppliers will be in existence throughout the entire territory of the Russian Federation. In each region, their individual areas of operation will be defined individually by regional authorities. Regional authorities are monitoring, on an on-going basis, the activities performed by guaranteeing suppliers, as well as their financial condition.

Pricing

The New Retail Market Rules also establish a system of pricing within the retail market. Tariffs for each region are to be set by the relevant regional tariff authority and are subject to the minimum and maximum levels established by the FST.

The new retail pricing regime envisages that parts of the electricity volumes supplied in the retail electricity market will be supplied at regulated prices, while the other parts will be supplied at prices that reflect the cost of electricity in the competitive wholesale electricity markets within the maximum unregulated prices calculated according to a specific formula and is based on the average weighted price of electricity in the wholesale market in the previous month, as published monthly by the Market Council. It also takes into account Government-regulated tariffs for power transmission services, services provided by the Commercial Operator and FSK, and the retail sales mark-up.

Under the current retail pricing regime, households are in effect subsidised by large industrial consumers of electricity since tariffs for households are set at less than commercially viable levels at the expense of higher tariffs for industrial and commercial consumers. It is expected that the removal of such cross-subsidies would cause average electricity prices for domestic consumers to increase substantially. The possibility of using state subsidies to avoid such a substantial increase for domestic consumers is reported to be under consideration by the Government.

Energy Sources for Electricity Generation

There are primarily five energy sources used in the Russian Federation for electricity generation:

- hydro (and other renewable energy sources);
- nuclear;
- coal;
- natural gas; and
- fuel oil.

Hydrogeneration and other renewable energy is weather dependent and location dependent. Only certain regions of Russia experience enough precipitation to feed the river systems that provide sufficient waterflow for hydro power plants to operate. Sources of renewable energy, primarily wind, sun and geothermal energy, are also not available at all regions of Russia.

Nuclear plants play a significant role in the generation of the electricity in the European part of Russia. Energoatom Concern is the sole authorised owner and operator of nuclear plants in Russia. See “Industry Overview – Current Industry Structure”.

Dominance of Fossil Fuels

The remaining electricity demand is satisfied by fossil fuel-fired power plants. The thermal generation is supplied primarily by coal and natural gas, with gas playing a dominant role as the most efficient fuel type.

Most power plants are also capable of using fuel oil as reserve fuel, which they utilise when there is a disruption in the primary fuel supplies. However, due to its relatively high price, fuel oil is

used only as reserve fuel in periods of peak load when all other fuel sources have been exhausted or as an ignition fuel by coal-fired generators.

Fossil fuel-fired plants are expected to continue to maintain their role as the primary source for electricity generation. Russia's current energy strategy promotes the construction of advanced coal-fired generation facilities in the coal-rich Siberian region, as well as the Urals region, which is close to coal-producing regions of Siberia and Kazakhstan. The strategy also recommends a focus on efficient natural-gas-fired capacity for the western and far eastern areas of the country.

REGULATORY MATTERS

Below is a summary of Russian regulatory matters that are applicable to the Group's operations in the Russian Federation.

Electricity Industry Regulation

The legal and regulatory framework of the Russian electricity market has been subject to constant renewal and amendment in recent years. Generally, the applicable laws and regulations focus on three main areas: (i) the establishment of a legal framework for the electricity industry and market; (ii) the regulation of the electricity and electricity capacity wholesale markets; and (iii) the establishment of applicable tariffs. See "Industry Overview".

As at the date of this Prospectus, the main laws and regulations relevant to the Group and its business are:

- Resolution No. 526;
- the Federal Law "On Specific Features of Functioning of Electricity Industry during the Transitional Period, and on Introduction of Amendments into Certain Laws of the Russian Federation and on Abolishing Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law "On the Electricity Industry"" No. 36-FZ dated 26 March 2003 (the "Transitional Period Law");
- the Federal Law "On Electricity Industry" No. 35-FZ dated 26 March 2003 (the "Electricity Industry Law");
- the Federal Law "On Energy Saving" No. 28-FZ dated 3 April 1996;
- the Federal Law "On State Regulation of Tariffs for Electric and Heat Energy in the Russian Federation" No. 41-FZ dated 14 April 1995 (the "Tariff Regulation Law");
- the Federal Law "On Safety of Hydrotechnical Facilities" No. 117-FZ dated 21 July 1997 (the "Hydrotechnical Facilities Law");
- the Federal Law "On Industrial Safety of Hazardous Industrial Facilities" No. 116-FZ dated 12 July 1997;
- the Federal Law "Technical Regulation on Fire Safety Requirements" No. 123-FZ dated 22 July 2008;
- the Resolution of the Government "On Approval of the Rules for the Operation of the Retail Electricity (Capacity) Markets during the Transitional Period" No. 530 dated 31 August 2006;
- the Resolution of the Government "On Rules of the Wholesale Electricity (Capacity) Market for the Transitional Period" No. 643 dated 24 October 2003;
- the Resolution of the Government "On Improvement of the Functioning of the Wholesale Electric Energy Market" No. 529 dated 31 August 2006;
- the Resolution of the Government "On Cap Limits of Tariffs for Electric and Heat Power" No. 516 dated 22 August 2003;
- the Resolution of the Government "On Determination of Prices in Relation to Electricity and Heat Power in the Russian Federation" No. 109 dated 26 February 2004; and
- other rules and regulations that have been promulgated in accordance with the above.

Below is a brief summary of the most important laws and regulations:

Resolution No. 526 established the principles and objectives of the restructuring of the Russian electricity industry. According to Resolution No. 526, such restructuring should result in the liberalisation of the existing federal wholesale electricity and electricity capacity markets. See "Industry Overview – Sector Reform".

The Transitional Period Law provides further details of some of the matters addressed by Resolution No. 526. Pursuant to the Transitional Period Law, the completion date for the transitional period of the sector reform was set as 1 July 2008, the same date that the final reorganisation of RAO UESR occurred. However, the Transitional Period Law proposes that, until 1 January 2011, wholesale and retail markets will continue operating in accordance with transitional period rules, providing for market liberalisation whilst, at the same time, keeping tariff regulations for the supply of electricity. In addition, from 1 April 2006, the Transitional Period Law prohibits legal entities and

individuals (and, from 1 July 2008, groups of persons and affiliates within one pricing zone of the wholesale market) from combining activities relating to the transmission and dispatching of electricity with activities relating to its generation and sale. As a result, from 1 April 2006 it has also been prohibited to own simultaneously any property used for the transmission and dispatching of electricity and property used for its generation and sale, subject to a few exceptions.

The Electricity Industry Law established the legal basis and the principles of economic relations within the electric power industry. In addition, the Electricity Industry Law provided specific details in relation to the trading of capacity as a separate product on the wholesale market, which was stated to be necessary for the efficient trading of electricity in both the short and long term. It currently applies to the extent that it does not contradict the Tariff Regulation Law. However, from January 2011, the Tariff Regulation Law is expected to be revoked and replaced by the Electricity Industry Law.

The Electricity Industry Law establishes the competency of the relevant state authorities in the electricity industry and market. The Government is the principal body charged with the regulation of the wholesale electricity market in Russia. Its authority includes, among other things, the following:

- the approval of the wholesale market rules and the retail market framework rules;
- the approval of rules governing non-discriminatory access to the electricity transmission, system dispatching and commercial infrastructure services;
- the approval of rules for control and antimonopoly regulation;
- the approval of rules for concluding and fulfilling public agreements in the wholesale and retail markets;
- the approval of pricing principles and rules determining relevant tariffs;
- the determination of the order for submitting wholesale market pricing bids by wholesale market participants, the order for selection thereof and for determining the equilibrium prices of the wholesale market; and
- the determination and modification of pricing zone borders within the wholesale market.

The Government or the federal governmental bodies authorised by the Government may, among other things, make decisions regarding the following:

- the establishment and maintenance of a system of long-term supply and demand forecasting within the wholesale and retail markets;
- the regulation of tariffs, excluding those which are under the competence of the regional authorities, including the determination of upper limits for such tariffs;
- the establishment of procedures for determining the amount and payment methods for system dispatching services;
- the establishment of procedures for determining the amount of electricity grid connection fees;
- control and antimonopoly regulation;
- the licensing of certain types of activities in the electricity industry and market;
- the approval of standards of information disclosure; and
- the exercise of control over the activities of commercial infrastructure entities.

The regional authorities of the Russian Federation generally regulate the electricity retail and heat power markets by, for instance, determining tariffs for the transmission of electricity within the local electric distribution grids and determining tariffs for heat power.

Disclosure of Information in the Wholesale Electricity Market

The Resolution of the Government “On Approval of Standards for Disclosure of Information by the Participants in the Electricity Wholesale and Retail Market” No. 24 dated 21 January 2004 (“Resolution No. 24”) sets out special rules for the disclosure of information by wholesale and retail electricity market participants and supplements the disclosure rules of Russian securities laws. Pursuant to Resolution No. 24, participants in the electricity markets must disclose the following information:

- annual financial (accounting) statements prepared in accordance with RAS with an auditor’s report as prescribed by the relevant Russian legislation;

- their capital efficiency ratios (when the method of “reasonable economic return on capital invested” is used for the calculation of tariffs); and
- their asset flow reports, including the identification of those assets that are taken into account in the determination of the level of reasonable economic return on capital invested as set out by the federal authority for regulation of the activities of natural monopolies.

In addition to the above information, generation companies must further disclose:

- information on electricity tariffs, the state authority’s decisions adopting such tariffs and the official publication source of any such decisions; and
- information on the discharge and emission of pollutants, and plans for the following year for reducing such discharges and emissions.

The information listed in the items above must be disclosed by no later than 1 June of each year, provided that any historic information must be disclosed after the end of the reporting year. Prospective information must be disclosed before the beginning of the reporting year. The FAS and its regional divisions aim to ensure that retail electricity markets participants comply with the above listed disclosure rules.

Licensing of Operations

The Group is required to obtain various licences, authorisations and permits from governmental authorities for its operations, and it must comply with the terms and conditions of its licences to ensure that they remain in effect, in particular its licences for the collection, use, treatment, transportation and disposal of hazardous wastes and for the operation of explosive and incendiary production facilities. RusHydro anticipates that the Government will replace the current licensing regime in respect of fire safety and the operation of explosive and incendiary industrial facilities with technical regulations issued under the Technical Regulation Law. See “– Technical Regulation”. As at the date of this Prospectus, these technical regulations have not been introduced, and the operation of hazardous industrial facilities continues to be conducted on the basis of licences issued under the Licensing Law and the regulations introduced thereunder (the “Licensing Regulations”).

Licensing of the Operation of Hazardous Facilities

The Federal Service for Ecological, Technological and Nuclear Supervision (the “Rostekhnadzor”) issues licences for the operation of explosive and incendiary industrial facilities. This authority also monitors compliance with legislation governing atmospheric emissions and waste management, sets limits on waste disposal and maintains a register of hazardous industrial facilities. Under the Licensing Law and the Licensing Regulations, the Rostekhnadzor issues licences for a term of five years and may extend them upon the application of the licensee. The issuance of the licence is subject to completion of an industrial safety declaration and a state industrial safety review. See “– Health and Safety”.

If a licensee breaches the terms of its licence, the licensing authorities may seek a court order to suspend the activities of that licensee, or administrative suspension of activities. Within 24 hours from the entering into force of such court order, the licensing authorities may suspend the relevant licence for a period to enable administrative supervision of the licensee’s activities. If, following a suspension of the licence, the licensee fails to cure the relevant breach within the period prescribed by the court, the licensing authorities must seek a court order to terminate the licence.

Use of Surface Waters

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the “Water Code”) no longer requires any licensing of surface water use. However, licences that were issued under the previous regime remain in force until their expiration. Under the Water Code, surface water use may be effected either on the basis of (i) a water use agreement concluded with the state or local authorities, (ii) a decision of the state or local authorities to grant rights to the use of surface water or (iii) without any such agreements or decisions, depending on the purpose of surface water use.

Water use agreements relate to both the removal of water resources from water bodies and the use of water bodies for the purpose of electricity production without the removal of water resources. These agreements may be concluded for a period of up to 20 years. Decisions on granting rights to the use of surface water and water bodies relate to the discharge of waste or drain water or the construction of hydrotechnical facilities.

Most of the water use agreements entered into by the Group relate to use of water bodies for electricity production purposes without the removal of water resources, while most of the decisions on granting to the Group rights to the use of surface water relate to discharge of waste and/or drain water.

Use of Water Reservoirs

The Water Code requires that a water user must use water reservoirs in accordance with the Rules for the Use of Water Resources in Water Reservoirs (the “Rules”) that were approved by the Ministry of Natural Resources and Ecology. In addition, the Federal Agency on Water Resources approves a separate set of Rules for each water reservoir, including those with a volume in excess of 10 million m³, that are included in a special list compiled by the Government. Most of the water reservoirs used by the Group are included in this list.

In addition to the Rules, the Federal Agency on Water Resources establishes an “operating regime” for a given period for each water reservoir (or its “cascade”). This operating regime is mandatory and stipulates the required water level for a water reservoir and the average daily volume of water that can be passed through hydro power plants. Prior to their issuance, these operating regimes are the subject of discussion between the Federal Agency on Water Resources and special interagency groups, including RusHydro representatives.

The Federal Agency on Water Resources usually sets the operating regimes of water reservoirs on a monthly basis, but in certain cases, including, for example, to allow the passage of river vessels or for the purposes of construction works, the operating regimes may be set on weekly or even daily basis.

Technical Regulation

The Technical Regulation Law introduces new rules relating to the development, enactment, application and enforcement of mandatory requirements concerning products, the manufacturing, storage, transportation, selling and utilisation of products and processes and the instruments regulating the quality of products and processes, such as technical regulations, standards and certification. Technical regulations set forth mandatory requirements for different products and processes. In addition, detailed characteristics of different products and processes are established according to national standards and the standards of certain organisations. Following their adoption, technical regulations and standards will replace the previously adopted state standards (the “GOSTs”). Since, however, most technical regulations have not yet been adopted (for example, technical regulations “On Safety of Power Plants and Networks” and “On Safety of Machinery and Equipment” are expected to be adopted by 1 January 2010), the existing federal laws and regulations, including GOSTs, establishing requirements for different products and processes remain mandatory to the extent they facilitate protection of health, life, property and the environment and prevent actions which may mislead consumers. Moreover, the federal standardisation authority, Gosstandard, has declared GOSTs and interstate standards adopted before 1 July 2003 as national standards mandatory to the extent described above.

Compliance with the requirements of technical regulations, standards and terms of contracts is confirmed by mandatory or voluntary certification. Mandatory certification is given through either the issuance of a compliance certificate or the certification by the respective authority of a compliance declaration. Mandatory certification confirms compliance only with the requirements of a technical regulation and only when such certification is prescribed by the respective technical regulation. Such technical regulations have not been adopted yet and currently the list of products and services subject to mandatory certification has been set out by the Government Resolution No. 1013 dated 13 August 1997, as amended. Electricity is currently included in this list.

In contrast, a voluntary certification is carried out at the request of a particular company and is done so in order to confirm the compliance of products and processes with the requirements of different standards and terms of contracts. Voluntary certification is carried out by an authorised certifying authority, which issues a compliance certificate and grants to an applicant the right to use a compliance mark.

Environmental Regulation

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the

management and disposal of hazardous substances and waste, the clean-up of contaminated sites and the protection of flora and fauna.

The Federal Law “On Environmental Protection” No. 7-FZ dated 10 January 2002, as amended (the “Environmental Protection Law”) is the primary source of environmental protection and regulation in Russia, together with a number of other federal and local legal acts. The following bodies are responsible for monitoring, implementing and enforcing relevant environmental laws and regulations in Russia:

- the Government;
 - the Ministry of Natural Resources of the Russian Federation;
 - the Federal Service for Supervision of Use of Natural Resources;
 - Rostekhnadzor;
 - the Federal Service for Hydrometrology and Environmental Monitoring;
 - the Federal Agency on Subsoil Use;
 - the Federal Agency on Forestry; and
 - the Federal Agency on Water Resources, together with its regional branches,
- as well as other state authorities and public and non-Governmental organisations.

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. Additional payment obligations may arise under the Water Code, the Federal Law “On the Wastes of Production and Consumption” No. 89-FZ dated 24 June 1998, as amended, and the Federal Law “On Atmospheric Air Protection” No. 96-FZ dated 4 May 1999, as amended.

To ensure that commercial and other activities do not adversely impact on the environment, the Environmental Protection Law sets forth certain standards of permissible levels of environmental impact to be observed by legal entities and individuals, including standards for permissible emissions and discharge of pollutants, limits on wastes disposal and limits on the permissible impact on fauna. The Group prepares and submits the relevant documentation for approval by Rostekhnadzor or another competent governmental authority, as the case may be. On the basis of this documentation, Rostekhnadzor or the relevant competent authority establishes standards and limits for emissions and discharge into the environment and limits on the disposal of waste.

If a company cannot meet the applicable standards, Rostekhnadzor may determine an interim limit for pollution and require the company to prepare and submit a programme for achieving full compliance with wastes emissions or disposals standards. The emission compliance programme is generally required to be implemented within a specified period. If, by the end of that period, the company still does not comply with the prescribed emission standards, a new programme for the compliance with emission standards must be submitted for approval.

Payments for environmental pollution are assessed on a sliding scale, ranging from pollution within the standards of permissible environmental impact, which results in the lowest fees, via pollution within approved limits to pollution in excess of the approved limits and standards of permissible environmental impact, which results in the highest fees. Companies must make payments on a quarterly basis, and any failure to make such payments when due may lead to an administrative fine of up to RUB 100,000. In addition, these payments do not relieve the relevant company from its responsibility to introduce measures to reduce the impact of its activities on the environment. In 2008, the Group made these payments in the amount of approximately RUB 5.8 million.

Ecological Impact Assessment

A company intending to conduct activities that may have an adverse impact on the environment must perform an ecological impact assessment of those activities in accordance with the Environmental Protection Law and certain ancillary regulations. Russian law also requires Rostekhnadzor to assess those activities to develop a programme to ensure the relevant company’s compliance with applicable environmental legislation. A failure to obtain the required assessments or any subsequent non-compliance with the prescribed programme may result in administrative fines of up to RUB 100,000, as well as certain other liabilities. See “- Environmental Liability”.

Environmental Protection Programmes

The Group has been developing and implementing environmental protection programmes in order to minimise the environmental impact of its operations. These programmes have included the reconstruction of discharged water treatment facilities, the installation of more environmentally efficient rotor wheels and discharged water, air and site ecological and industrial monitoring. In 2008, the Group spent approximately RUB 1,113.4 million on environmental protection programmes.

Environmental liability

If the operations of a company breach environmental requirements or cause harm to the environment or any individual or legal entity, each of Rostekhnadzor, the injured party or the public prosecutor may bring a court action to limit or prohibit those operations and require the company to remedy the effects of the breach. The statute of limitations for such actions is 20 years. Any company that fails to comply with environmental regulations may be subject to administrative or civil liability, including fines and orders to remedy the violations. In addition, a company's employees may be similarly liable and individuals may also incur criminal liability for failures to comply with environmental regulations.

Regulation of Real Estate

The Russian Federation and the Russian regions and municipalities currently own most land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate is privately owned primarily due to the less restrictive regulatory regime which applies to such assets.

Land Use Rights

Russian legislation prohibits the performance of any commercial activity on a land plot without appropriate land use rights. Under the Land Code, companies generally have one of the following rights to use land in the Russian Federation:

- ownership;
- free use for a fixed term; or
- leasehold.

Companies that have obtained rights to land plots before the Land Code became effective may currently hold such land plots with the right of perpetual use. As indicated, the federal, regional or municipal authorities own the majority of land plots in Russia, and may, through public auctions or tenders or through private negotiations, sell, lease or grant other land use rights to third parties. By 1 January 2010, Russian law requires companies which obtained the right to perpetually use a given plot of land prior to the enactment of the Land Code in 2001 to either purchase the land from, or to enter into a lease agreement with, the relevant federal, regional or municipal authority which currently owns the land.

The Federal Service for State Registration, Cadastre and Cartography (the "Federal Registration Service") records details of land plots, including their measurements and boundaries, in a unified register, or cadastre. As a general rule, land users must obtain a state cadastre number for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. As described below, the Federal Registration Service maintains a separate register for the registration of all real estate and transactions relating to that real estate.

The Federal Registration Service categorises all land as having a particular designated purpose, for example, agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (i.e. land which the state or municipality owns but which a third party may use only upon transfer to another category). Land users may only use land in accordance with the purpose designated by the relevant category.

Under the Land Code, the state or municipalities may generally sell or lease the land plots they own to Russian and foreign individuals or legal entities. However, the state may not sell or lease certain land plots to the private sector, for example, natural reserves and land used for military purposes. The Land Code refers to such plots as being "withdrawn from commerce". Other land plots may be subject to ownership restrictions which stipulate that the private sector may hold such plots only under a lease (for example, land reserved for cultural heritage). Certain restrictions apply to foreign individuals, foreign legal entities and stateless persons: some land plots (for example,

agricultural land, land along the borders of Russia) may not be owned (although may be leased) by these categories of land users. The restriction on ownership of agricultural land also applies to Russian legal entities, in which more than 50 per cent of share capital is owned by foreign individuals, foreign legal entities or stateless persons.

Under Russian law, it is possible that the ownership rights to a building and the land plot on which it is constructed may not be held by the same person or entity. In such circumstances, the owner of that building, as a general rule, has the right of use over the relevant portion of that plot of land, unless otherwise determined by law, contract or the regulatory decision which determined the allocation of that plot of land. Moreover, an owner of a building or plot of land may request that the owner of an adjoining plot of land grant limited rights of use of that adjoining plot of land in favour of that first owner. In addition, federal, regional or municipal authorities may exercise similar rights in the interests of the state, municipality or local population.

A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. A party to a lease agreement must register any lease agreement for a period of one year or more concerning a plot of land with the relevant state authorities.

The Group generally leases its plots of land or occupies them under a right of perpetual use.

State Registration of Real Estate and Transactions Involving Registered Real Estate

The Federal Registration Service of the Russian Federation maintains the Unified State Register of Rights to Immovable Property and Transactions Therewith (the “Register of Rights”). The Federal Law “On State Registration of Rights to Immovable Property and Transactions Therewith” No. 122-FZ dated 21 July 1997, as amended, requires the Federal Registration Service to register the following details, among others, in the Register of Rights:

- buildings, facilities, land plots and other real estate; and
- specified transactions involving such registered real estate, including the establishment of trust management, mortgages, and leases for a term of not less than one year.

The Federal Registration Service effects registration in the Russian region in which the property is located, and land users acquire rights to the relevant real estate only upon such registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered null and void.

Regulation of the Sale and Lease of Real Estate

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration, although agreements for the sale of residential buildings require registration.

Water Resource Land

Pursuant to the Land Code, water resource lands include lands that are (i) covered by the surface waters of water bodies; or (ii) used by hydrotechnical facilities located on water bodies. Since the Water Code stipulates that water resource land is an integral part of water bodies, it is not used to form land plots, and its use is largely governed by water legislation.

Health and Safety

The Group’s operations are subject to various Russian health and safety regulations. The principal law regulating industrial safety at hydro power facilities is the Hydrotechnical Facilities Law.

Operation of Hydrotechnical Facilities

Companies that operate hydrotechnical facilities have a wide range of obligations under the Hydrotechnical Facilities Law. In particular, they must receive permissions for the operation of hydrotechnical facilities. Such permissions are issued by Rostekhnadzor on the basis of safety declarations with respect to hydrotechnical facilities, which should be prepared and submitted by a

company for Rostekhnadzor's approval. This safety declaration summarises both the risks associated with operating a particular hydrotechnical facility and the measures that a company is implementing in order to mitigate such risks and to ensure compliance with the applicable safety requirements. Once Rostekhnadzor has approved such safety declaration, it issues the permission for the operation of the hydrotechnical facility and enters the hydrotechnical facility in the State Register of Hydrotechnical Facilities.

A company operating hydrotechnical facilities must also maintain third party liability insurance against injuries and losses caused by accidents at its hydrotechnical facilities.

State Control over Safety of Hydrotechnical Facilities

Rostekhnadzor has broad powers to monitor compliance with the safety requirements for the operation of hydrotechnical facilities. In particular, officials of Rostekhnadzor have the right to access hydrotechnical facilities and may inspect documents to ensure a company's compliance with safety rules. In the event of non-compliance, Rostekhnadzor may issue binding orders to remedy the violations, and may suspend or terminate operations or impose administrative liability.

Liability

Any company or individual violating industrial safety rules may incur administrative or civil liability, and individuals may also incur criminal liability. Rostekhnadzor may also require a company that violates safety rules in a way that has an adverse impact on the health of an individual to compensate that individual for lost earnings, as well as health-related damages.

Regulation of Competition

The Federal Law "On the Protection of Competition" No. 135-FZ dated 26 July 2006 (the "Competition Law") and other federal laws and regulations governing antimonopoly issues constitute the primary antimonopoly legislation of the Russian Federation. By this antimonopoly legislation, the Government intends to prevent and terminate any monopolistic operations and unfair competition.

Prohibitions

In general, antimonopoly restrictions for entities operating in Russia include prohibitions on the:

- setting and maintaining high or low monopoly prices for goods;
- withdrawal of goods from the market if such withdrawal results in price increases;
- curtailment or discontinuance of production of goods that is not economically or technologically justified if there is demand for such goods or if orders have been placed for their supply, and it is possible to continue to produce them at a profit;
- setting of different prices (or tariffs) for the same goods that are not economically, technologically or otherwise justified; and
- creation of discriminatory conditions.

Pre-transaction approvals

The Competition Law requires mandatory pre-approval by the FAS of the following actions:

- (i) the acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (1/3 participation interest in a limited liability company), other than the acquisition of shares and participation interests by the founders of a company upon its establishment, and subsequent increase of such stakes up to more than 50% and more than 75% of the voting shares (1/2 and 2/3 participation interest in a limited liability company respectively);
- (ii) the acquisition by a person (or its group) of the core production assets or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group).

The FAS prior approval for the transactions specified in (i) and (ii) above is required only in the event that the aggregate asset value of an acquirer (or its group) together with a target (or its group) exceeds RUB 3 billion; or the total annual revenues of such acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUB 6

billion and at the same time the total asset value of the target (or its group) exceeds RUB 150 million; or the acquirer, and/or the target, or any entity within the acquirer's group or a target's group are included in the Register of Entities with a Market Share in Excess of 35% in a Particular Commodity Market or with a Dominant Position in a Particular Commodity Market (the "Antimonopoly Register").

- (iii) mergers and consolidations of entities if:
 - their aggregate asset value (including the aggregate asset value of the groups to which they belong) exceeds RUB 3 billion;
 - total annual revenues of such entities (groups to which they belong) for the preceding calendar year exceed RUB 6 billion; or
 - one of these entities is included in the Antimonopoly Register;
- (iv) the foundation of an entity if its charter capital is paid by shares (participation interests) or assets of another entity and such newly founded entity acquires the rights in respect of such shares (participation interest) or assets as specified in (i) and (ii) of this sub-section provided that
 - the aggregate asset value of the founders (including the groups to which they belong) and the entities (including the groups to which they belong) whose shares (participation interest) and/or assets are contributed to the charter capital of the newly founded entity exceeds RUB 3 billion;
 - total annual revenues of the founders (including the group to which they belong) and the entities (including the groups to which they belong) whose shares (participation interest) or assets are contributed to the charter capital of the newly founded entity for the preceding calendar year exceed RUB 6 billion; or
 - the entity whose shares (participation interest) or assets are contributed to the charter capital of the newly founded entity is included in the Antimonopoly Register.

Post-transaction approvals

The Competition Law provides for a mandatory post-transaction notification (within 45 days from the date of transaction) to the FAS in connection with the following:

- transactions specified in (i) and (ii) above if:
 - the aggregate asset value or total annual revenues of the acquirer (including its group) and the target (including its group) for the preceding calendar year exceed RUB 200 million and at the same time the total asset value of the target (including its group) exceeds RUB 30 million; or
 - the acquirer, and/or target, or any entity within the acquirer's group or a target's group are included in the Antimonopoly Register; and
- transactions specified in item (iii) above if the aggregate asset value or total annual revenues of the relevant entities (their respective groups) for the preceding calendar year exceeds RUB 200 million.

Conditional approvals

As a condition to issuing approvals for the above transactions, the FAS may impose on the applicants certain conditions aimed at the protection of competition, including restrictions on conducting business, such as limitations on prices, geographical expansion, entering into associations and agreements with competitors.

Intra-group transactions

Intra-group acquisitions and disposals are not subject to pre-approval by the FAS, but still require a post-transaction notification described above, if (i) one of the parties files a "list of its group members" with, and in the format prescribed by, the FAS not later than one month prior to the transaction, and (ii) such members of the group have not changed between the date of filing and the date of the transaction. The party making the filing must specify the reasons for including each of the group members in the group. Once submitted, the FAS publishes the list on its website.

Dominant position

In relation to companies with dominant positions in certain markets, the Competition Law establishes a regulatory framework aimed at protecting competition in those markets. The Competition Law establishes several criteria for determining whether an entity together with its group has a dominant position in a particular commodity market (in particular, if an entity's share of the market for specified goods exceeds 50%). An entity holding a dominant position in a particular commodity market is prohibited from abusing such a position through, among other things, fixing or maintaining a monopolistically high or low price of goods or services or creating discriminatory conditions. The Competition Law also authorises the FAS to issue binding orders to companies violating the applicable antimonopoly regimes, including orders requiring a spin-off or a split up of the relevant business.

Currency Restrictions

The Group's operations are subject to certain currency control restrictions, which are set forth in the Currency Law and respective regulations of the CBR. Pursuant to the Currency Law, residents and non-residents may settle transactions either in roubles or in foreign currency. Under the Currency Law, residents conducting foreign trade must, subject to certain exemptions stipulated by the Currency Law, repatriate all roubles and foreign currency payable to them under foreign trade contracts to accounts in authorised Russian banks. In addition, such residents must procure the repatriation of funds paid by non-residents for goods, works, services, intellectual property and information that were not supplied into, or performed in, the Russian Federation.

The Currency Law and the CBR Regulation No. 117-I of 15 June 2004 set forth the requirement for residents to open a transaction passport with Russian banks. As a general rule, this requirement applies to residents engaged in (i) export and import trade with non-residents, and (ii) giving loans to, or receiving loans from, non-residents. In relation to imports, residents must complete this requirement prior to making payments for imported goods.

Employment and Labour

The Labour Code of the Russian Federation (the "Labour Code"), which regulates the establishment and termination of labour relations and the rights and duties of employees and employers, primarily governs labour matters in Russia. In addition to this core legislation, various federal laws, such as the Federal Law "On employment in the Russian Federation" of 19 April 1991, as amended, regulate the relationship between employers and employees.

Employment contracts

As a general rule, employers conclude employment contracts for an indefinite term with all employees. Russian labour legislation expressly limits the possibility of entering into a fixed term employment contract. However, employers may enter into an employment contract for fixed terms in certain cases, for example (i) where it is not possible to establish labour relations for an indefinite term primarily due to the nature of the duties or the conditions of the performance of such duties, or (ii) as expressly identified by federal law.

An employer and an employee may agree to terminate the employee's employment upon the expiration of the relevant employment contract or on the basis of other grounds established by law. In addition, an employee has the right to terminate an employment contract on giving a minimum of two weeks' notice. An employer may terminate an employment contract only on the grounds specified by the Labour Code, including absenteeism, breach of industrial safety rules and certain other serious breaches of employment duties.

Employees' Rights

The Labour Code provides an employee with certain minimum rights, which an employment contract may supplement, including the right to:

- a working environment which complies with health and safety requirements;
- receive a salary on a timely basis; and
- participate in the management of the employer.

In addition, the Labour Code provides protection for employees in certain circumstances. For example, an employer must compensate an employee that it dismisses due to downsizing or

liquidation. Such compensation should include a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except under a limited number of circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

A court may invalidate any termination by an employer that is inconsistent with the Labour Code, and order the employer to reinstate and compensate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for emotional distress.

Work Time

The Labour Code generally sets the regular working week at 40 hours. As a general rule, any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females.

Salary

The minimum monthly salary in Russia, as established by federal law, is RUB 4,330 as at the date of this Prospectus. Although Russian law requires that the minimum wage be at or above the minimum subsistence level, the current minimum wage is generally considered to be less than such minimum level of subsistence.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of employees to fulfil their work duties, whether wholly or partly, with the intention of settling a collective labour dispute. An employer may not use an employee's participation in a legal strike as grounds for terminating that employee's employment contract, although the Labour Code does not generally require employers to pay wages to striking employees for the duration of the strike. However, Russian legislation contains several requirements for employees to conduct legal strikes, and an employee's participation in an illegal strike may be adequate grounds for an employer to terminate his or her employment contract.

Trade Unions

RusHydro believes that trade unions in Russia have influence over employees and may affect the operations of large industrial companies in Russia. The activities of trade unions in Russia are primarily governed by The Labour Code and the Federal Law "On Trade Unions, Their Rights and Guaranties of Their Activity" No. 10-FZ dated 12 January 1996, as amended (the "Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common industrial and professional interests that is incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. The Trade Union Law also permits national trade union associations which coordinate the activities of trade unions throughout Russia.

As part of their activities, trade unions may:

- represent their members and guarantee their individual rights;
- represent and guarantee the collective rights of employees;
- negotiate and conclude collective contracts and agreements on behalf of employees;
- participate in the settlement of individual and collective labour disputes;
- request information relating to social and labour issues from employers, their unions and state and municipal authorities;
- monitor compliance by employers and offices with labour legislation;

- participate in the formation of state programmes for employee rights and environmental protection;
- participate in legal strikes; and
- monitor redundancies of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian law requires that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees. If a trade union discovers a breach of labour laws, it may notify the employer with a request that the employer remedy the breach and, if there is an immediate threat to the health of employees, suspend work. Trade unions may apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions must present their demands to the employer. The Labour Code then obliges the employer to consider the demands and to notify the trade union of its decision in response. If the dispute remains unresolved, a reconciliation commission (consisting of the representatives of the employer and employees) attempts to end the dispute. If this proves unsuccessful, the employer and the trade union will usually refer the collective labour dispute to mediation or labour arbitration.

Finally, although the Trade Union Law provides that those who violate the legal rights granted to trade unions and their officers may be subject to disciplinary, administrative or criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

The summary below includes a description of the Shares, the material provisions of the Articles of Association in effect as at the date of this Prospectus and certain requirements of Russian legislation applicable to RusHydro and the Shares.

DR holders will be able to exercise their rights with respect to the Shares underlying the DRs only in accordance with the provisions of the relevant Deposit Agreement and the relevant requirements of Russian law. See “Terms and Conditions of the Global Depositary Receipts” and “Terms and Conditions of the American Depositary Receipts” for more information.

Purposes of RusHydro

The Articles of Association provide that the purposes of RusHydro are (a) to implement state policy in the hydropower industry; (b) to contribute to the effective functioning of the wholesale electric power market; (c) to operate hydropower generation facilities effectively through centralised management; (d) to pursue a capital raising and investment strategy to enable the system-wide development of the hydropower industry; (e) to develop and implement research and technology policies and introduce new, advanced engineering facilities and technologies, including the development of renewable energy sources; and (f) to generate profits. According to the Articles of Association, in order to achieve these purposes, RusHydro may conduct any activities that are not prohibited or restricted by law.

Description of Share Capital

General

Pursuant to the Articles of Association and Russian legislation, RusHydro has the right to issue (i) registered ordinary shares, (ii) registered preferred shares, and (iii) other securities detailed in the securities legislation of the Russian Federation. Under Russian legislation, a company's share capital is the aggregate par value of its issued shares.

As at the date of this Prospectus, RusHydro's share capital amounts to RUB 255,014,018,667 and consists of 255,014,018,667 registered ordinary Shares, all of which are fully paid, issued and outstanding, with a par value of RUB 1 each. In addition, RusHydro is authorised by its Articles of Association to issue an additional 35,545,972,176 Shares. RusHydro has not issued or authorised any preferred shares.

RusHydro is an open joint-stock company with more than 1,000 holders of voting shares for purposes of certain provisions of the Joint Stock Companies Law described below. As at 30 April 2009, RusHydro had 361,673 holders of voting shares.

As at the date of this Prospectus, subsidiaries of RusHydro hold 2,744,767,752 Shares.

History of Share Capital

RusHydro was established by its then sole shareholder, RAO UESR, and registered on 26 December 2004 with a share capital consisting of 103,951,322,702 Shares, all of which were fully paid, issued and outstanding.

On 28 October 2005, the board of directors of RAO UESR, acting in its capacity at that time as the General Meeting of Shareholders of RusHydro, resolved to place an additional 120 billion Shares by closed subscription to RAO UESR and the Russian Federation. The new Share issuance was registered with the FSFM on 21 March 2006. Out of the total offering of 120 billion Shares, RusHydro placed 37,003,437,154 Shares at a price of RUB 1.01 per share, all of which were purchased by RAO UESR. The report on the Share issuance was registered with the FSFM on 21 December 2006.

On 25 May 2007, the board of directors of RAO UESR, acting in its capacity at that time as the General Meeting of Shareholders of RusHydro, resolved to place an additional 110 billion Shares by closed subscription to the Russian Federation, RAO UESR and LLC ESOP, an operator for the option programme for RusHydro's management. The new Share issuance was registered with the FSFM on 5 July 2007. Out of the total offering of 110 billion Shares, RusHydro placed 15,909,613,920 Shares at a price of RUB 1.73 per share. The report on the Share issuance was registered with the FSFM on 1 November 2007. As a result of this Share issuance, RAO UESR's

stake in the share capital of RusHydro was diluted to approximately 96.16%, with approximately 1.84% held by the Russian Federation, and the balance of 2% held by LLC ESOP.

On 12 October 2007, for the purposes of the reorganisation of RusHydro, the General Meeting of Shareholders of RusHydro adopted a resolution to issue an additional 230 billion Shares to be placed to shareholders of the companies merging into RusHydro. The reorganisation took place in two stages:

- Stage 1 (January 2008): shares in 20 merged joint-stock companies were converted into an additional 38,996,122,959 Shares.
- Stage 2 (July 2008): (i) shares in OJSC State Holding HydroOGK were converted into an additional 145,457,945,389 Shares; and (ii) shares in OJSC Minority Holding HydroOGK, OJSC Irganayskaya HPP and OJSC Cascade Nizhne-Cherekskhih HPPs were converted into Shares that RusHydro had obtained from these companies as a result of their merger into RusHydro. Upon completion of Stage 2 of the reorganisation, 96,304,382,933 Shares, which were obtained by RusHydro from the merged companies as a result of their merger into RusHydro but not used for the purposes of conversion specified in (ii) of this paragraph, were cancelled.

As a result of this reorganisation, the share capital of RusHydro increased from 156,864,373,776 Shares as at 1 January 2008 to 245,014,059,191 Shares as at 31 December 2008.

On 17 November 2008, the General Meeting of Shareholders of RusHydro adopted a resolution to place an additional 10 billion Shares by open subscription for the purposes of financing the Group's investment programme. The new Share issuance was registered with the FSFM on 2 December 2008. Out of the total offering of 10 billion Shares, RusHydro placed 9,999,959,476 Shares at a price of RUB 1 per share. The report on the Share issuance was registered with the FSFM on 19 March 2009.

On 17 November 2008, the General Meeting of Shareholders of RusHydro also approved the placement of an additional 16 billion Shares by open subscription for the purposes of financing the Group's investment programme. The new Share issuance was registered with the FSFM on 14 May 2009 and is expected to complete in September 2009. In accordance with the federal budget of the Russian Federation, it is expected that the Russian Federation will acquire 4,923,866,100 of the additional Shares in July 2009.

On 10 June 2009, the General Meeting of Shareholders of RusHydro approved the placement of an additional 19 billion Shares by open subscription for the purposes of raising additional financing for the Group's investment programme. The Russian Federation may acquire some of these Shares in exchange for shares held by the Russian Federation in various companies, including, primarily, subsidiaries of RusHydro.

Rights attaching to the Shares

As required by the Joint Stock Companies Law, all of the Shares have the same par value and grant identical rights to their holders. Fully paid Shares give their holder the right to:

- freely transfer such Shares without the consent or pre-emptive rights of RusHydro or other shareholders of RusHydro;
- receive dividends if declared by RusHydro;
- participate in General Meetings of Shareholders and vote on all matters within the competence of General Meetings of Shareholders, including through a representative;
- request the repurchase by RusHydro of all or some of the Shares owned by such shareholder, if such shareholder voted against, or did not participate in the voting on a decision approving any of the following decisions (subject to the statutory restriction that RusHydro may not use in aggregate more than 10% of its net assets for the purposes of such repurchase):
 - a reorganisation of RusHydro;
 - the conclusion of a Major Transaction involving assets in excess of 50% of the balance sheet value of RusHydro's assets; or
 - the amendment of the Articles of Association or approval of a new version of the Articles of Association in a manner that limits shareholders' rights;

- receive, upon liquidation of RusHydro, part of RusHydro's property after settlement by RusHydro of its liabilities;
- have access to certain documents of RusHydro, except (other than for shareholders holding in aggregate not less than 25% of Shares) accounting documents and minutes of the Management Board;
- exercise pre-emptive rights that arise upon the issuance of new Shares and securities convertible into Shares, on a *pro rata* basis to their existing holdings of Shares, when such Shares or securities are placed by open subscription and, in certain cases, by closed subscription; and
- exercise other rights of a shareholder provided by the Articles of Association and Russian legislation.

In addition, shareholders holding, individually or with other holders, more than 1% of the Shares may obtain a list of persons registered in RusHydro's shareholder register. Shareholders holding, individually or with other holders, not less than 2% of the Shares may propose matters for the agenda of the annual General Meetings of Shareholders and nominate candidates to the Board of Directors and the internal audit commission. Pursuant to the Joint Stock Companies Law, shareholders holding, individually or with other holders, not less than 10% of the Shares, may request that the Board of Directors convene an extraordinary General Meeting of Shareholders or an unscheduled audit by the internal audit commission.

Shareholders holding, individually or with other holders, not less than 1% of Shares may bring a claim against any member of the Board of Directors, the Chairman of the Management Board and any other member of the Management Board, for damages sustained by RusHydro as a result of the wilful actions or inactions of such person in the exercise by such person of his corporate duties. In addition, the Joint Stock Companies Law provides for the right of any shareholder to file a claim against any member of the Board of Directors, the Chairman of the Management Board and any other member of the Management Board, for damages sustained by such shareholder as a result of a wilful violation by such person of the provisions relating to the protection of minority shareholders in the context of takeover procedures.

Share Acquisition above Certain Thresholds and Takeover Protection

A person intending to acquire more than 30% of RusHydro's Shares (taking into account those it already holds together with its affiliates) has the right to make an offer to holders of RusHydro's Shares to buy all or part of such shares (a voluntary offer). A person who has acquired by any means (including through its affiliates) more than 30%, 50% or 75% of RusHydro's Shares (taking into account those it already holds together with its affiliates) must make an offer to the other holders of RusHydro's Shares and holders of securities convertible into such shares to buy out their remaining RusHydro's Shares and securities convertible into such shares not later than 35 days after such acquisition (a mandatory offer).

An acquirer must secure its payment obligations arising from both voluntary and mandatory offers by an irrevocable bank guarantee valid for at least six months after expiration of the term for payment of the acquisition price.

At any time after RusHydro receives a voluntary or a mandatory offer, and not later than 25 days prior to the expiration of the acceptance period of the last offer received by RusHydro, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers, as the case may be) to purchase at least as many securities and for the same or a higher acquisition price than those offered in the relevant voluntary or mandatory offer. Prior to the expiration of the acceptance period of the initial offer, any shareholder may revoke its previous acceptance of the initial offer and accept the competing offer. RusHydro must send a copy of the competing offer to the person who made the initial voluntary or mandatory offer (as applicable) so that such person has the opportunity to amend its offer by increasing the acquisition price and/or shortening the settlement period, or by extending the acceptance period (but not exceeding the acceptance period of the competing offer).

In addition, from the date upon which a person makes a voluntary or mandatory offer until 20 days after the expiration of the period for acceptance of such voluntary or mandatory offer, decisions on the following actions can be passed only by General Meeting of Shareholders:

- share capital increases by the issuance of additional shares;

- the placement of securities convertible into shares;
- a transaction or a series of interrelated transactions associated with the acquisition, disposal or the possibility to dispose (directly or indirectly) of assets with a value of 10% or more of the balance sheet value of RusHydro's assets as at the last reporting date, unless such transaction(s) were entered into (i) in the ordinary course of business; (ii) prior to the receipt of the offer by RusHydro, or (if the offer relates to publicly traded securities) before RusHydro disclosed information on receipt of the offer;
- Interested Party Transactions;
- buybacks of Shares by RusHydro; and
- any increase of remuneration to members of RusHydro's management bodies, setting out conditions for their dismissal and any increase of compensation related to such dismissal.

If, as a result of either a voluntary or the mandatory offer, an acquirer purchases more than 95% of RusHydro's Shares (taking into account those it already holds together with its affiliates), it will have an obligation to:

- notify all other RusHydro's shareholders and holders of securities convertible into RusHydro's Shares (within 35 days after the acquisition of RusHydro's voting shares which take such acquirer's holding above that threshold) of their right to demand that such acquirer buys out their shares and other securities convertible into shares; and
- purchase RusHydro's Shares and/or other securities convertible into such shares upon demand of their holders.

The acquirer must secure any such notification by an irrevocable bank guarantee.

In addition, the acquirer has the right to deliver a mandatory buy-out request, requiring holders of the remaining voting shares of RusHydro and holders of securities convertible into such shares to sell them to the acquirer, provided that, as a result of its voluntary offer or mandatory offer (as applicable), such acquirer purchases not less than 10% of RusHydro's voting shares. The acquirer may require the holders to sell to it their remaining voting shares of RusHydro and securities convertible into such shares within six months following expiration of the acceptance period of the relevant voluntary offer or mandatory offer.

As the Shares are publicly traded, an acquirer must file the mandatory or voluntary offer (as applicable) relating to the Shares with the FSFM prior to making such offers. Any mandatory buy-out request or notification by an acquirer who has purchased more than 95% of RusHydro's voting shares are also subject to the FSFM's prior review. The FSFM may require the acquirer to make revisions to the terms of the offer, buy-out request or respective notification (including the acquisition price) to ensure the acquirer's compliance with the applicable rules.

Pre-emptive rights

The Joint Stock Companies Law provides existing shareholders of RusHydro with a pre-emptive right to purchase additional shares or securities convertible into shares to be placed by an open subscription (i.e., an offering to an unlimited number of acquirers) in an amount proportionate to their existing holding of such shares.

In addition, the Joint Stock Companies Law provides shareholders of RusHydro with a pre-emptive right to purchase additional shares or securities convertible into shares to be placed by a closed subscription (i.e., an offering to a limited number of acquirers) if the shareholders voted against or did not participate in the voting on the decision approving such subscription. This pre-emptive right does not apply to a closed subscription made available only to existing shareholders in which each such shareholder had the right to acquire shares or securities convertible into shares in an amount proportionate to their existing holdings of such shares.

RusHydro must notify its shareholders which are entitled to exercise these pre-emptive rights of the possibility to exercise such pre-emptive rights by publication in the newspaper "Vedomosti" and on RusHydro's website. The period during which shareholders may exercise their pre-emptive rights must extend for at least 45 days following the date of such notification, although such period may be reduced to 20 days following the date of such notification in offerings in which the price of the offered shares or securities convertible into shares is to be determined after the expiration of pre-emptive rights.

Dividends

The Joint Stock Companies Law, the Articles of Association and RusHydro's Regulations on dividend policy approved by the Board of Directors in May 2008 set forth the procedure for determining the dividends that RusHydro may distribute to its shareholders. The conditions for the declaration and distribution of dividends include the following:

- RusHydro may declare dividends based on its three month, six month, nine month or annual results;
- a decision on three month, six month and nine month dividends may be taken within three months of the end of the respective period, and a decision on annual dividends must be taken at the annual General Meeting of Shareholders;
- a decision to pay (declare) dividends may be taken only by the General Meeting of Shareholders and only on the basis of recommendations of the Board of Directors;
- shareholders may not approve a greater dividend than that recommended by the Board of Directors;
- the Board of Directors may recommend not to pay dividends even if RusHydro has earned net profits;
- according to the Regulations on dividend policy, RusHydro aims to allocate at least 5% of its consolidated net profit calculated under RAS for annual dividends provided that the share of profits attributable to the investment component of the electricity (capacity) tariffs paid to RusHydro may not be allocated for dividends;
- RusHydro distributes dividends to holders of Shares, determined as at the record date for the relevant General Meeting of Shareholders which approves the dividends, within a term set forth by the shareholders' resolution to approve the dividends but not exceeding 60 days of the date of such shareholders' resolution;
- dividends not claimed within three years of the date of payment lapse and accrue to RusHydro; and
- RusHydro does not pay dividends on treasury shares.

The Joint Stock Companies Law allows a company to pay dividends on shares only out of consolidated net profits calculated under RAS. Shareholders may take a decision to pay (declare) dividends provided the following conditions have been met:

- that company's share capital is fully paid;
- the value of that company's net assets, calculated in accordance with RAS, is not less, and would not, as a result of the proposed dividend payment, become less, than the sum of its share capital, reserve fund and the difference between the liquidation value and the par value of its issued preferred shares, if any;
- that company has repurchased all shares tendered by shareholders having the right to demand repurchase; and
- that company is not, and would not become as a result of the proposed dividend payment, insolvent.

Furthermore, the Joint Stock Companies Law prohibits a company from paying declared dividends in the following situations:

- on the scheduled date of payment of such dividends, that company is insolvent or could become insolvent as a result of such payment; and
- on the scheduled date of payment of such dividends the value of that company's net assets, calculated in accordance with RAS, is less, or would, as a result of the proposed dividend payment, become less, than the sum of that company's share capital, reserve fund and the difference between the liquidation value and the par value of its issued preferred shares, if any.

Distributions to shareholders on liquidation

Under Russian law, the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law provides for voluntary liquidation initiated by a three-quarters majority vote of a General Meeting of Shareholders or involuntary liquidation initiated by a court order.

Following a decision to liquidate a company, the right to manage such company's affairs passes to a liquidation commission appointed by (i) in a voluntary liquidation, the General Meeting of Shareholders and (ii) in an involuntary liquidation, a court. Creditors may file claims within a period determined by the liquidation commission, although such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

Solvent liquidation

The Civil Code gives creditors' claims the following order of priority during solvent liquidation:

- (i) claims of individuals owed compensation for injuries or deaths, or moral damages;
- (ii) claims of employees and copyright claims;
- (iii) claims of federal and local governmental authorities for taxes and similar payments for their budgets and non-budgetary funds; and
- (iv) claims of other creditors.

Claims of creditors in respect of obligations secured by a pledge of the relevant company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors ranking (i) and (ii) in the order of priority whose claims arose before the company granted the relevant pledge. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of creditors ranking (iv) in the order of priority.

The liquidation commission distributes the remaining assets of a company in solvent liquidation to shareholders in the following order of priority:

- (i) payments to repurchase shares from shareholders which had requested the repurchase of their shares in accordance with the Joint Stock Companies Law;
- (ii) payments to preferred shareholders of dividends declared on preferred shares but unpaid, and the liquidation value of the preferred shares, if any; and
- (iii) distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a *pro rata* basis.

Insolvent liquidation

The Federal Law "On Insolvency (Bankruptcy)" No. 127-FZ dated 26 October 2002, as amended (the "Bankruptcy Law") provides for a somewhat different order of priority of creditors' claims in the event of insolvent liquidation of a company:

- (i) claims of individuals owed compensation for injuries or deaths, or moral damages;
- (ii) claims of employees and copyright claims; and
- (iii) claims of other creditors.

Claims of creditors in respect of obligations secured by a pledge of the relevant company's property are satisfied prior to claims of any other creditors from an amount equal to 70% of the sale proceeds of the pledged property. The remaining 30% of the proceeds of such sale is allocated in a ratio of 2:1 to (a) satisfy claims ranking (i) and (ii) in the order of priority above and (b) cover court costs and other expenses, respectively. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of creditors ranking (iii) in the order of priority.

In addition, the Bankruptcy Law provides for the bankrupt estate to settle certain payments in a different order of priority from that order set out above. These payments include various expenses incurred in the course of insolvency proceedings, creditors' claims which arose after the acceptance by the arbitrazh court of the petition for the court to declare the debtor bankrupt and before the court declares the debtor bankrupt, and creditors' claims in respect of monetary obligations which arose during bankruptcy proceedings, unless otherwise provided by the Bankruptcy Law.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of the joint stock company in which they hold shares, and bear only the risk of loss of their investment. However, there are several exceptions to this rule, including the following:

- a court may hold a shareholder or other person that has the right or ability to issue binding instructions to a company or otherwise determine its actions secondarily liable for the company's obligations in the event of the company's bankruptcy. Russian law limits such secondary liability to the extent that the actions or inactions of such shareholder or other person has caused the bankruptcy. Further, in order to impose secondary liability on such shareholders or other controlling persons, it is necessary to prove that such person(s) performed such actions or inactions knowingly and was or were aware that such actions or omissions would result in the company's bankruptcy; and
- if an entity is able to determine the decisions of a company based on ownership rights, a contract or otherwise, Russian law deems such entity an "effective parent" of the company, with the latter deemed an "effective subsidiary". In these circumstances, the effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out the decisions of the effective parent if:
 - this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the effective parent and the effective subsidiary; and
 - the effective parent gives binding instructions to the effective subsidiary.

A shareholder of an effective parent is not liable for the debts and liabilities of the effective parent's effective subsidiary, unless that shareholder is an effective parent of the effective parent and the conditions above apply.

Share capital increase

Pursuant to the Joint Stock Companies Law and the Articles of Association, RusHydro may increase its share capital by increasing the par value of its issued shares or by placing additional shares. Both actions require a proposal of the Board of Directors followed by approval by a simple majority vote of shareholders in a General Meeting of Shareholders, although if the placement of additional shares is carried out by either (i) a closed subscription or (ii) an open subscription of additional ordinary shares constituting more than 25% of issued ordinary shares, approval by a three-quarters majority vote of a General Meeting of Shareholders is required.

In addition, any issuance of shares or securities convertible into shares in excess of the number of authorised shares set out in the Articles of Association requires an amendment to the Articles of Association. An amendment to the Articles of Association requires a three-quarters majority vote of a General Meeting of Shareholders.

Share price determination

The Joint Stock Companies Law requires the Board of Directors to determine the placement price of additional shares offered through subscription on the basis of their market value. The Board of Directors may engage an independent appraiser to determine the market value of such shares. There is a specific requirement for determining the placement price of securities which are traded on stock exchanges and the price of which is publicly available, and, in such case, the Board of Directors must take into account those prices.

The placement price for existing shareholders exercising a pre-emptive right to purchase additional shares may not be more than 10% lower than the offering price for third parties. In relation to any in-kind contributions for new shares, the Board of Directors must value such contributions based on their market value determined by an independent appraiser. In such circumstances, the value set by the Board of Directors may not in any event exceed the value determined by the independent appraiser. Finally, the fees of an intermediary participating in the placement of additional shares through subscription cannot exceed 10% of the share placement price.

Procedures for share issuance and registration

Russian securities regulations, including the Federal Law "On the Securities Market" No. 39-FZ dated 22 April 1996, as amended, and the FSFM regulations, set out detailed procedures for the issuance and registration of additional shares of a joint stock company. In summary, these procedures require:

- the adoption of a decision on the increase of share capital by the placement of additional shares;
- the adoption of a decision on additional share issuance;

- the registration of an additional share issuance with the FSFM;
- the placement of the additional shares;
- the registration of a report or filing of the notification on the results of an additional share issuance with the FSFM; and
- the public disclosure of information at each of the above stages.

Share capital decreases and share repurchases

RusHydro has the right, and under certain circumstances is statutorily required, to decrease its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUB 100,000 for an open joint stock company. Pursuant to the Joint Stock Companies Law and the Articles of Association, RusHydro may decrease its share capital:

- by reducing the par value of its issued shares, which requires a proposal of the Board of Directors followed by approval by a simple majority vote of shareholders in a General Meeting of Shareholders;
- by reducing the number of its issued shares, including by repurchase and cancellation, which requires a simple majority vote of a General Meeting of Shareholders.

In addition, within 30 days of a decision to reduce its share capital, RusHydro must publish a notification on this decision and issue a written notice of such decision to its creditors. RusHydro's creditors would then have the right to demand, within 30 days of publication or receipt of that notice, an accelerated performance or termination of all RusHydro's obligations owed to them, as well as compensation for damages, if any.

According to the Joint Stock Companies Law, shareholders may take a decision to decrease company's share capital by reducing the par value of the issued shares only if the following conditions have been met as at the date of adoption of such decision:

- the company's share capital is fully paid;
- the value of the company's net assets, calculated in accordance with RAS, is not less, and would not, as a result of the proposed decrease of share capital, become less than the sum of its share capital, its reserve fund and the difference between the liquidation value and par value of the company's issued preferred shares, if any;
- the company has repurchased all shares tendered by shareholders having the right to demand repurchase;
- the company is not, and, as a result of the proposed decrease of share capital, would not become, insolvent;
- the company has paid declared dividends in full; and
- other specified requirements of Russian legislation.

Shareholders' right to demand repurchase

Russian law provides that a shareholder of a joint stock company may demand the repurchase by the company of all or some of its shares if the shareholder demanding such repurchase voted against, or did not participate in the voting on, the decisions specified in the Joint Stock Companies Law (see "– Rights attaching to the Shares"). Any such demand must be made to the company not later than 45 days after the relevant decision of the General Meeting of Shareholders.

Pursuant to the Joint Stock Companies Law, if a shareholder has demanded that the company repurchase its shares, such shareholder is not entitled to dispose of, or encumber, its shares from the moment of receipt by the company of that shareholder's demand until the earlier of the registration with the shareholders' register of the transfer of those shares to the company or the revocation by that shareholder of its demand. The Board of Directors must approve a report on the results of a repurchase of the shares within 50 days of the relevant decision of the General Meeting of Shareholders, and changes must then be reflected in the shareholders' register on the basis of that report.

Limit on repurchases

A company may not repurchase shares in such circumstances in an amount which exceeds 10% of the company's net assets calculated according to RAS as at the date of the decision of the General

Meeting of Shareholders that gave rise to the shareholders rights to demand such repurchase. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds that limit, the company will repurchase shares from each such shareholder on a *pro rata* basis.

Registration and transfer of shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. In relation to a joint stock company with more than 50 shareholders such as RusHydro, a specialised registrar must maintain the register of shareholders. Any of the company's shareholders may obtain an extract from the company's register certifying the number of shares that such shareholder holds. OJSC Moscow Central Depository, whose registered office is located at 3 Orlikov pereulok, bld. V, 107078 Moscow, Russian Federation, maintains RusHydro's shareholder register.

Depositories

A shareholder may conclude an agreement with a licensed depository, under which a depository will be responsible for keeping records of transfers of rights over the deposited shares. Under Russian legislation, the conclusion of a depository agreement does not entail transfer of the right of ownership over the deposited shares to a depository, and a depository may not carry out any operations with the deposited shares except on the instruction of the shareholder. If a shareholder deposits shares with a depository, the depository registers the shares on a special "depo" account and the registrar registers the depository in the register of shareholders as a nominee shareholder.

Transfers of shares

A purchase, sale or other transfer of shares is effected through registration in the register of shareholders (or the registration with a depository if shares are held by such depository). Neither the registrar or depository is permitted to demand any documents in addition to those required by Russian legislation in order to effect such registration.

Reserve and Other Funds

Russian legislation requires each joint stock company to establish a reserve fund for the company to use only to cover its losses, to redeem its bonds and repurchase its shares if other funds are not available. Pursuant to the Joint Stock Companies Law and the Articles of Association, RusHydro has established a reserve fund equal to 5% of its share capital, and RusHydro must make annual allocations to the fund of 5% of its net profits until the fund reaches the required amount.

Disclosure of Information

Russian securities regulations require RusHydro to make the following public disclosures and filings in Russian on a periodical basis:

- filing with the FSFM and publishing on RusHydro's website quarterly reports containing, among other things, information about RusHydro, its shareholders, the structure of RusHydro's management bodies, the members of RusHydro's management bodies, RusHydro's branches and representative offices, its shares, bank accounts and auditors, important developments during the reporting quarter and other information about RusHydro's financial and business activity;
- filing with the FSFM and publishing in a Russian newswire and on RusHydro's website any information concerning material facts and changes in the financial condition or business activities of RusHydro, including, among other things:
 - any reorganisation of RusHydro, its subsidiaries or dependent companies;
 - events resulting in a change of value of RusHydro's assets by more than 10%;
 - events resulting in a change of RusHydro's net profits by more than 10%;
 - certain facts related to securities issuances;
 - decisions of the General Meetings of Shareholders;
 - inclusion in RusHydro's register of shareholders of any shareholder that has acquired 5% or more of ordinary shares and any event which resulted in the number of ordinary shares held by such shareholder moving above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold;

- information on any of the following documents received by RusHydro: a voluntary offer (including any competing offer); a mandatory offer (including any competing offer); a notice of the right of shareholders to request the purchase of their securities by the person that has acquired more than 95% of RusHydro's voting shares; or a request from an acquirer of more than 95% of RusHydro's voting shares requiring the remaining holders of RusHydro's voting shares and holders of securities convertible into RusHydro's voting shares to sell such shares or securities to such acquirer; and
- other material facts.
- disclosing information at various stages during an issuance of securities by publication of certain data as required by the securities regulations;
- disclosing RusHydro's annual report and annual financial statements prepared in accordance with RAS;
- filing with the FSFM on a quarterly basis a list of RusHydro's affiliated persons and disclosing this information on RusHydro's website; and
- other information as required by applicable Russian securities legislation.

Corporate Governance

In August 2008, RusHydro's Shares were included in the quotation lists "A1" of the RTS and MICEX and, as a result, Russian legislation requires RusHydro to comply with a number of corporate governance requirements. Such requirements include, among others:

- the retention of at least three independent Directors on the Board of Directors at all times;
- the establishment of an audit committee of the Board of Directors composed of independent Directors only (or, if there are insufficient independent directors, independent Directors and non-executive Directors only) and chaired by an independent Director;
- the establishment of a personnel and remuneration committee of the Board of Directors composed of independent Directors only (or, if there are insufficient independent directors, independent Directors and non-executive Directors only);
- the establishment of the Management Board;
- the adoption of a regulation on insider trading;
- the adoption of a regulation on information disclosure;
- the establishment of internal control procedures; and
- the introduction of provisions into RusHydro's internal documents requiring members of the Board of Directors, the Management Board, the sole executive body, including the management company (if any) and its officers to disclose information concerning their ownership, sale and purchase of RusHydro's securities.

For a more detailed description of RusHydro's corporate governance regime, see "Management and Corporate Governance".

General Meeting of Shareholders

Responsibilities

The powers of RusHydro's General Meeting of Shareholders are set forth in the Joint Stock Companies Law and in the Articles of Association. A General Meeting of Shareholders may only decide issues that fall within its competence as established by the Joint Stock Companies Law and by the Articles of Association in accordance with the Joint Stock Companies Law. Pursuant to the Articles of Association, the General Meeting of Shareholders has the exclusive power to take decisions, among other things, on the following:

- any amendments to the Articles of Association or approval of a new version thereof;
- the reorganisation of RusHydro;
- the liquidation of RusHydro, the appointment of a liquidation commission and the approval of interim and final liquidation balance sheets;
- the determination of the number, par value and class (type) of authorised shares and the rights attaching to these shares;

- the increase of RusHydro's share capital by way of increasing the par value of Shares or by placing additional Shares;
- the decrease of RusHydro's share capital by way of the reduction of the par value of Shares or by way of buy-back by RusHydro of its Shares, as well as by way of cancellation of the Shares acquired or redeemed by RusHydro;
- the splitting and consolidation of Shares;
- the placement by RusHydro of bonds convertible into Shares and other securities convertible into Shares;
- the election and removal of the Board of Directors;
- the election and removal of the members of RusHydro's internal audit commission;
- the appointment of RusHydro's external auditor under RAS;
- the approval of an annual report, annual financial statements under RAS, including an income statement (profit and loss accounts) of RusHydro, as well as allocation of the profits and losses that RusHydro made in the financial year;
- the declaration and payment of dividends based on three-month, six-month, nine-month and annual financial results;
- the approval of Interested Party Transactions and Major Transactions in accordance with the Joint Stock Companies Law;
- the participation by RusHydro in financial and industrial groups, associations and other business groups;
- the adoption of RusHydro's by-laws, or internal regulations, governing the activities of RusHydro's corporate bodies;
- the payment of compensation and/or disbursements to members of RusHydro's internal audit commission;
- the payment of compensation and/or disbursements to the members of the Board of Directors; and
- any decisions on certain other matters as provided by the Joint Stock Companies Law.

Voting

Generally, each shareholder has one vote per Share at a General Meeting of Shareholders, except in relation to the election of the Board of Directors, which RusHydro is required under the Joint Stock Companies Law to conduct through cumulative voting. See "– Board of Directors". Most decisions of RusHydro require a majority vote of the holders of voting shares present at a General Meeting of Shareholders. However, Russian law requires a three-quarters majority vote of holders of voting shares present at a General Meeting of Shareholders to approve the following matters:

- the amendments to the Articles of Association or approval of a new version thereof;
- the reorganisation of RusHydro;
- the liquidation of RusHydro, the appointment of a liquidation commission and the approval of interim and final liquidation balance sheets;
- the determination of the number, par value and class (type) of authorised shares and the rights attaching to these shares;
- the decrease of RusHydro's share capital by way of the reduction of the par value of Shares;
- the placement of Shares (or securities of RusHydro that are convertible into Shares) by closed subscription;
- the placement by an open subscription of Shares constituting more than 25% of issued Shares;
- the placement by an open subscription of securities that may be converted into ordinary shares constituting more than 25% of issued ordinary shares;
- approval of Major Transactions involving assets with a value representing in excess of 50% of the balance sheet value of the assets of RusHydro; and
- other matters as specified in the Joint Stock Companies Law.

Quorum

Shareholders (or their representatives) present and representing more than 50% of the Shares constitute the quorum requirement for a General Meeting of Shareholders. If the 50% quorum requirement is not met at an annual general meeting, RusHydro must schedule another General Meeting of Shareholders with the same agenda. If the 50% quorum requirement is not met at an extraordinary general meeting, RusHydro has the option of scheduling another general meeting with the same agenda. The quorum requirement at such re-scheduled general meeting (annual or extraordinary) comprises shareholders (or their representatives) present and representing at least 30% of the Shares.

Convening meetings and agenda

The annual General Meeting of Shareholders must be held not earlier than two months and not later than six months after the end of the financial year (currently 31 December for RusHydro), and its agenda must include the following items:

- the election of the Board of Directors of RusHydro;
- the election of the members of RusHydro's internal audit commission;
- the approval of an annual report and annual financial statements, including an income statement (profit and loss accounts) of RusHydro, as well as an allocation of profits (including the declaration of dividends for the financial year) and losses that RusHydro made in the financial year; and
- the appointment of RusHydro's external auditor.

The Board of Directors may convene extraordinary General Meetings of Shareholders at its own discretion, or at the request of RusHydro's internal audit commission, RusHydro's external auditor or by a shareholder or group of shareholders holding in aggregate at least 10% of Shares as at the date of the request.

Shareholders may only vote on those items set out in the agenda for a General Meeting of Shareholders.

Format of meetings

Shareholders may hold General Meetings of Shareholders either by way of a physical meeting or by "absentee voting" by the use of voting ballots.

Physical meetings

A physical meeting generally requires the attendance of the shareholders (or their authorised representatives) for the purpose of discussing and voting on issues on the agenda. However, according to the Articles of Association, voting on the agenda items of any General Meeting of Shareholders may be effected only by voting ballots to be circulated to shareholders for participation at a meeting at least 20 days prior to date of a General Meeting of Shareholders. Therefore, even in case of a "physical meeting", shareholders may complete and mail the voting ballots back to RusHydro without personally attending the meeting and RusHydro will count the votes cast in this way along with those of the shareholders (or their authorised representatives) physically present.

Absentee voting meetings

A General Meeting of Shareholders held by means of "absentee voting", i.e., without holding a physical meeting at all, involves voting by way of voting ballots which shareholders deliver to RusHydro. Shareholders cannot decide the following issues by a General Meeting of Shareholders held by "absentee voting", and RusHydro must instead convene a physical meeting:

- the election of the Board of Directors of RusHydro;
- the election of the members of RusHydro's internal audit commission;
- the approval of an annual report and annual financial statements, including an income statement (profit and loss accounts) of RusHydro, as well as an allocation of profits (including the declaration of dividends for the financial year) and losses that RusHydro made in the financial year; and
- the appointment of RusHydro's external auditor.

Notice

The Shares are listed on the RTS and MICEX, and, as a result, RusHydro is subject to stricter shareholder notification requirements in relation to General Meetings of Shareholders than unlisted companies. According to the Articles of Association, RusHydro must notify all persons entitled to participate in a General Meeting of Shareholders of any such meeting not less than 30 days prior to the date of the meeting by the publication of a notification in the newspaper “Vedomosti” and on RusHydro’s website. However, in relation to an extraordinary General Meeting of Shareholders (i) to elect the Board of Directors or (ii) to approve a reorganisation of RusHydro by way of merger, spin-off or split-up and to elect the board of directors of a company established as a result of such reorganisation, shareholders must be notified at least 70 days prior to the date of the respective General Meeting of Shareholders.

Participation

The Board of Directors determines a date, the record date, on which RusHydro compiles a list of those persons recorded in its register of shareholders and who are therefore entitled to participate in a General Meeting of Shareholders. The record date may neither be earlier than the date of the Board resolution to convene a General Meeting of Shareholders nor more than 50 days before the date of the General Meeting of Shareholders (or, in the case of an extraordinary General Meeting of Shareholders to elect the Board of Directors, not more than 85 days before the date of the meeting). Since, according to the Joint Stock Companies Law and the Articles of Association, voting at the General Meetings of Shareholders of RusHydro may be effected only by voting ballots, the record date shall be set not less than 35 days prior to the respective General Meetings of Shareholders.

A shareholder may exercise its or his right to participate in a General Meeting of Shareholders as follows:

- by personally participating at the meeting in the discussion of agenda items and voting thereon;
- by sending an authorised representative to participate at the meeting in the discussion of agenda items and to vote thereon;
- by mailing a completed voting ballot; or
- by delegating the right to fill out and deliver the voting ballot to an authorised representative.

Board of Directors

The Board of Directors is responsible for the general management of RusHydro, with the exception of those matters that are designated by law and the Articles of Association as being reserved for the decision of shareholders at a General Meeting of Shareholders.

Members of the Board of Directors

General law on electing directors

The Joint Stock Companies Law provides that a joint stock company’s shareholders must elect the company’s entire board of directors at each annual general meeting of shareholders by the cumulative voting method. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder, multiplied by the number of persons to be elected to the company’s board of directors. The shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the shareholders may remove the directors as a group at any time without cause by a simple majority vote at a General Meeting of Shareholders and replace them as above.

The Joint Stock Companies Law requires all joint stock companies with 50 or more holders of voting shares to have a board of directors with at least five members. The Joint Stock Companies Law requires a joint stock company with more than 1,000 holders of voting shares to have a board of directors with not less than seven members and a joint stock company with more than 10,000 holders of voting shares to have a board of directors with not less than nine members. Shareholders may only elect natural persons, as opposed to legal entities, as directors. The Joint Stock Companies Law does not require members of the board of directors to be shareholders of the relevant company.

Electing the Board of Directors

Currently, the Board of Directors consists of thirteen members. See “Management and Corporate Governance – Board of Directors”. Under the Joint Stock Companies Law, individual shareholders or shareholders of a company holding in aggregate no less than 2% of Shares have the right to nominate candidates to the Board of Directors. The number of candidates nominated by each such shareholder or group of shareholders shall not exceed the total number of members of the Board of Directors. In accordance with the Articles of Association, nominating shareholders must deliver a list of candidates nominated for election to the Board of Directors and related materials to RusHydro (i) not later than 90 days after the end of the fiscal year, and (ii) at least 30 days prior to the date of an extraordinary General Meeting of Shareholders if the shareholders propose to elect a new Board of Directors at such meeting. If the number of candidates to the Board of Directors nominated by the shareholders is not sufficient to form the Board of Directors, or if there are no such nominations, the then current Board of Directors may nominate candidates for election to the Board of Directors at its own discretion.

Responsibilities

Pursuant to the Joint Stock Companies Law and the Articles of Association, the Board of Directors has the power, among other things, to:

- determine priority areas at RusHydro’s activities and approve long-term programmes for RusHydro’s development (including RusHydro’s investment programme);
- convene annual and extraordinary General Meetings of Shareholders, and pass resolutions on issues related to the calling, preparing and holding of General Meetings of Shareholders;
- approve the issuance of RusHydro’s bonds and other securities, unless otherwise provided for by the Joint Stock Companies Law and by the Articles of Association;
- approve decisions on the issue of securities, prospectuses of securities, reports on acquisition of shares from RusHydro’s shareholders, reports on redemption of shares, reports on the results of requests by RusHydro’s shareholders concerning the buyout of shares held by them;
- determine the price (cash value) of property and the placement and redemption price of securities as provided for by the Joint Stock Companies Law;
- approve the acquisition of shares, bonds and other securities issued by RusHydro as provided for by the Joint Stock Companies Law;
- approve the disposal of Shares that were acquired by RusHydro as a result of the purchase or redemption of Shares from shareholders or otherwise in accordance with laws and regulations of the Russian Federation;
- determine the number of members of the Management Board, elect the Management Board members, determine the remuneration and compensation payable to them and terminate their powers, including their service contracts;
- elect the Chairman of the Management Board and terminate his powers, including his service contract, apply disciplinary penalties, and offer incentives, to the Chairman of the Management Board in accordance with labour laws of the Russian Federation and nominate the Chairman of the Management Board for national awards;
- elect the Chairman and deputy Chairman of the Board of Directors and terminate their powers;
- form committees of the Board of Directors, elect their members, and approve their regulations;
- elect, and terminate the powers of, the Secretary of the Board of Directors;
- approve, or adjust, the business plan of RusHydro, and review reports on its implementation;
- determine the remuneration payable to RusHydro’s external auditor;
- give recommendations to the General Meeting of Shareholders on the size of dividends on Shares and the procedure for dividend payment;

- approve internal documents of RusHydro establishing the procedure for the formation and use of the funds of RusHydro, and decide on the use of RusHydro's funds;
- approve internal documents of RusHydro, other than internal documents subject to the approval by the General Meeting of Shareholders or properly delegated to the executive bodies of RusHydro, and approve internal documents drafted for the purpose of compliance with the requirements of laws and regulations of the Russian Federation and securities regulations;
- approve the participation by RusHydro in other entities, changes in ownership interests, including the number of shares and the size of ownership interest or share, the encumbrance of shares and interests, and the termination of the participation by RusHydro in other entities;
- give prior approval of decisions on RusHydro entering into:
 - a transaction with fixed assets of RusHydro in excess of 10% of the balance sheet value of such assets as at the date of the decision to enter into such transaction;
 - a transaction, or several related transactions, involving the disposal or potential disposal of RusHydro's property consisting of fixed assets, intangible assets, and construction in progress in cases (amounts) and in a manner subject to individual resolutions to be passed by the Board of Directors;
- approve RusHydro's lending policy relating to the issue of loans by RusHydro, entering into credit agreements and loan agreements, issue of guarantees, assumption of liabilities under a bill (issue of promissory notes or bills of exchange) and approve such transactions if they are outside the approved lending policy of RusHydro;
- approve transactions related to gratuitous assignment of property (title) to third parties in cases and amounts to be determined by an individual resolution of the Board of Directors;
- approve Major Transactions as specified by the Joint Stock Companies Law;
- approve Interested Party Transactions as specified by the Joint Stock Companies Law;
- approve RusHydro's registrar and the terms and conditions of the contract with that registrar, as well as early termination of that contract;
- other issues, as provided for by the Joint Stock Companies Law and/or the Articles of Association.

The Board of Directors may not delegate matters which are within its authority to the other executive bodies of RusHydro.

Voting

Each member of the Board of Directors has one vote, and, in the event of a tie, the Chairman of the Board of Directors has a casting vote. The Joint Stock Companies Law and the Articles of Association generally require a majority vote of the directors present for the Board of Directors to pass a resolution, with the exception, among other things, of resolutions for which Russian law requires a unanimous vote or a majority vote of the disinterested and independent Directors, as well as in respect of certain matters provided by the Articles of Association. In particular, according to the Articles of Association, decisions on the following issues require a two-third majority of votes of Directors attending the meeting:

- the participation by RusHydro in other entities, changes in ownership interests, including the number of shares and size of ownership interest or share, the encumbrance of shares and interests, and the termination of the participation by RusHydro in other entities;
- the prior approval of decisions on RusHydro entering into:
 - a transaction with fixed assets of RusHydro in excess of 10% of the balance sheet value of such assets as at the date of the decision to enter into such transaction;
 - a transaction, or several related transactions, involving the disposal or potential disposal of RusHydro's property consisting of fixed assets, intangible assets, and construction in progress in cases, amounts and in a manner subject to individual resolutions to be passed by the Board of Directors; and

- the approval of RusHydro's lending policy relating to the issue of loans by RusHydro, the entering into credit agreements and loan agreements, the issue of guarantees, the assumption of liabilities under a bill, including the issue of promissory notes or bills of exchange, and the approval of such transactions if they are outside the approved lending policy.

Quorum

A meeting of the Board of Directors is quorate when at least one-half of all elected members of the Board of Directors are present.

The Board of Directors elects its Chairman by the majority vote of all elected members of the Board of Directors. The Chairman of the Board of Directors may be re-elected at any time by the same procedure. The Chairman is responsible for leading the work of the Board of Directors. The Chairman of the Board of Directors organises the work of the Board of Directors, convenes and chairs its meetings and arranges for minutes of such meetings to be kept.

Convening meetings

The Board of Directors may hold meetings as often as necessary, but not less than once every three months in accordance with the Articles of Association and RusHydro's internal documents. The Chairman of the Board of Directors may convene a meeting of the Board of Directors at his own discretion, or at the request of:

- any member of the Board of Directors of RusHydro;
- the internal audit commission of RusHydro;
- the external auditor of RusHydro;
- the Chairman of the Management Board of RusHydro; or
- the Management Board of RusHydro.

Notice

The Secretary of the Board of Directors must notify in writing each member of the Board of Directors of a meeting of the Board of Directors not later than 11 business days prior to the scheduled date of the meeting, although this notification period may be reduced by a decision of the Chairman of the Board of Directors.

Management Board

The Management Board is RusHydro's collective executive body acting on the basis of the Articles of Association and the Regulations on the Management Board. The Articles of Association provide that the Board of Directors elects the members of the Management Board, at the recommendation of the Chairman of the Management Board, and that the Board of Directors has the right to remove any member of the Management Board at any time. Under the Joint Stock Companies Law, members of the Management Board cannot constitute more than 25% of the Board of Directors.

Pursuant to the Articles of Association, the Management Board is responsible for the following matters:

- the development and submission to the Board of Directors of prioritisations for RusHydro's activities and long-term implementation plans;
- the preparation of reports on the implementation of decisions passed by the General Meeting of Shareholders and the Board of Directors;
- the submission to the Board of Directors of reports on RusHydro's performance and the implementation of RusHydro's business plan;
- the approval or adjustment of RusHydro's budget;
- the determination of the position of RusHydro, or representatives of RusHydro, including instructions on whether or not to take part in voting on an agenda item, to vote for, against or abstain from voting on the approval or adjustment of the key performance targets of subsidiaries and dependent companies and the consideration of reports on their fulfilment;

- the nomination by RusHydro of persons to be elected to the sole executive bodies, other management bodies, control bodies, and the nomination of an auditor for organisations in which RusHydro participates in cases and according to a procedure determined by the Board of Directors;
- the passing of decisions on matters attributed to the top management bodies of legal entities in which 100% of the share capital is held by RusHydro;
- decisions on other issues of management of RusHydro's day-to-day operations pursuant to resolutions of the General Meeting of Shareholders and the Board of Directors, and issues referred to the Management Board by the Chairman of the Management Board.

Chairman of the Management Board

The Chairman of the Management Board is RusHydro's chief executive officer and is responsible for its day-to-day activities. The Chairman of the Management Board exercises executive authority over all activities of RusHydro, except for issues reserved to the shareholders, the Board of Directors and the Management Board. Under the Articles of Association, the Board of Directors elects the Chairman of the Management Board for 5 years and may at any time resolve to terminate his or her appointment. The Chairman of the Management Board chairs the meetings of the Management Board. The Chairman of the Management Board acts on behalf of RusHydro and may bind RusHydro without any power of attorney. The Chairman of the Management Board signs agreements, opens RusHydro's bank accounts and carries out other management functions in the course of RusHydro's day-to-day activities.

Internal Audit Commission

The Joint Stock Companies Law, the Articles of Association and RusHydro's internal regulations made thereunder govern the activities of RusHydro's internal audit commission, which oversees and coordinates audits of RusHydro's financial and business operations. The principal duties of the internal audit commission are:

- the supervision of RusHydro's financial and business performance;
- monitoring compliance of RusHydro's financial and business transactions with the legislation of the Russian Federation and the Articles of Association;
- the independent evaluation of information on RusHydro's financial condition.

The shareholders elect the members of the internal audit commission for a term until the next annual General Meeting of Shareholders. Members of the Board of Directors and management bodies may not be appointed to the internal audit commission. RusHydro's internal audit commission currently consists of 5 members. See "Management and Corporate Governance – Board of Directors – Compliance – Internal Audit Commission".

Interested Party Transactions

Definition

The Joint Stock Companies Law defines certain transactions of a company as "Interested Party Transactions", which require, subject to certain exemptions, approval by independent directors or shareholders of that company who are not interested in the transaction. Interested Party Transactions include transactions involving:

- a member of that company's board of directors;
- the Chairman of that company's management board;
- a member of that company's management board; or
- any shareholder that owns, together with its affiliates, at least 20% of that company's shares or any person who is entitled to give binding instructions to that company,

if any such person above (or that person's spouse, parents, children, adoptive parents or children, siblings and/or that person's affiliates), is:

- a party to, or a beneficiary of, a transaction with that company, whether directly or as a representative or intermediary;
- the owner, individually or collectively, of at least 20% of the issued shares of a legal entity that is a party to, or a beneficiary of, a transaction with that company, whether directly or as a representative or intermediary;

- a member of any management body of a company or a member of any management body of the managing organisation of such company that is a party to, or a beneficiary of, a transaction with that company, whether directly or as a representative or intermediary; or
- in certain other cases stipulated which may be provided by that company's articles of association; RusHydro's Articles of Association do not currently stipulate any such other cases.

Approval

Directors

The Joint Stock Companies Law requires a company with more than 1,000 holders of voting shares (such as RusHydro) to obtain the majority vote of its uninterested independent directors to approve an Interested Party Transaction. An independent director of a company for these purposes is a member of the board of directors who does not, and during the one year preceding the approval of such Interested Party Transaction, did not:

- serve as the sole executive body of the company, act as a member of its management board or occupy a management position in its management organisation;
- have a spouse, parent, child, adopted child or parent, or siblings that act or occupy any of the above positions; or
- constitute an affiliate of the company, other than as a member of the board of directors.

Shareholders

The Joint Stock Companies Law requires a majority of uninterested shareholders to approve an Interested Party Transaction if:

- the value of such transaction or a series of inter-related transactions represent 2% or more of the balance sheet value of the company's assets as determined under RAS;
- the transaction or a series of inter-related transactions involves the placement through subscription or secondary market sale of shares in an amount exceeding 2% of the aggregate of the company's issued ordinary shares and ordinary shares into which issued convertible securities may be converted;
- the transaction or a series of inter-related transactions involves placement through subscription of securities convertible into shares that may be converted into ordinary shares constituting more than 2% of the aggregate of the company's issued ordinary shares and ordinary shares into which convertible securities may be converted; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

If an Interested Party Transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party, the Interested Party Transaction does not require shareholder approval. However, this exemption applies only to Interested Party Transactions concluded within the period commencing from the date when such party becomes an interested party until the next annual general meeting of shareholders.

Mandatory prior approval

Companies must approve Interested Party Transactions prior to their execution. Pursuant to an action brought by the company or any of its shareholders, a court may invalidate any Interested Party Transaction entered into in breach of the Joint Stock Companies Law within one year from the date the party making such claim learned, or should have learned, of such transaction.

Major Transactions

The Joint Stock Companies Law defines a "Major Transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal, of property having a value representing 25% or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions in the ordinary course of business or transactions in connection with the placement through subscription of ordinary shares of the company or with the placement of securities convertible into ordinary shares of the company.

Major Transactions involving assets with a value representing between 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, if the company does not obtain such approval and the directors refer the matter to the general meeting of shareholders, a simple majority vote of shareholders. Major Transactions involving assets with a value representing in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders at a general meeting.

A court may invalidate any Major Transaction entered into in breach of the Joint Stock Companies Law pursuant to an action brought by the company or any of its shareholders within one year from the date the party making such claim learned, or should have learned, of such transaction.

Approval of Antimonopoly Authorities

The Competition Law requires buyers to notify the FAS of certain acquisitions of shares in a joint stock company or to obtain the prior approval of the FAS. See “Regulatory Matters – Regulation of Competition”.

The responsibilities of the Depositary

The Depositary appears in the register of shareholders of a joint stock company as an owner of the shares, and, as a result, is technically subject to these notification and approval requirements. However, under each Depositary Agreement, the Depositary may not exercise voting rights in its discretion, but in accordance with the instructions of the relevant DR holders. Accordingly, although the Competition Law does not specifically exempt depositaries from antimonopoly clearance, depositaries have in practice benefited from such an exemption, as clarified by the FAS in letters issued on case-by-case basis.

Currency Control

Residents and non-residents of the Russian Federation may conduct currency operations in relation to the DRs without limitations, unless otherwise provided in Russian currency laws and regulations of the CBR. Most exchange control restrictions for operations between Russian residents and non-residents were abolished with effect from 1 January 2007.

Non-residents may receive dividends declared by Russian companies both in foreign currencies and roubles. Shareholders may convert dividends declared and paid in roubles into foreign currency through Russian authorised banks and transfer the funds out of Russia.

FSFM Approval of Placement and/or Circulation of Shares in the Form of DRs

Pursuant to Russian law, a Russian company may place and/or circulate its securities outside the Russian Federation in the form of DRs, provided that such company obtained prior permission from the FSFM to do so. Currently, the Regulations “On the Procedure for Issuance of Approvals by the FSFM for the Placement and/or Circulation Outside the Russian Federation of Securities Issued by Russian Companies” approved by the FSFM Order No. 06-5/pz-n, dated 12 January 2006, stipulates that the total number of shares of a Russian company that may be placed and/or circulated outside the Russian Federation may not generally exceed 30% of the total number of shares of that class of that company. This limit was a decrease on the 75% which became effective on 26 April 2001, the 40% which became effective on 27 June 2003 and 35% which became effective on 26 May 2006. In addition, with respect to any share offering, a Russian company may not place and/or circulate more than 70% of the offered shares outside the Russian Federation in the form of DRs, and the company should make arrangements to give investors the opportunity to acquire all of the offered shares in the Russian Federation.

On 20 May 2008, RusHydro obtained permission from the FSFM to circulate up to 37.5 billion Shares outside the Russian Federation in the form of DRs, representing approximately 14.7% of the total number of Shares.

Notification of Foreign Ownership

Pursuant to Part I of the Tax Code, foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time that they acquire shares is unclear.

Notification of Acquisition of Shares

Pursuant to Russian securities legislation, each holder of ordinary shares of a joint stock company must notify a company and the FSFM of the acquisition of 5% or more of such ordinary shares and any subsequent change in the number of the ordinary shares above or below a threshold of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%. Each notification must contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired.

As a general rule, shareholders must make such notifications within five days after the shareholder and/or its counterparty has transferred the ordinary shares to or from such shareholder's securities account. Alternatively, if such change was the result of placement of additional ordinary shares, the shareholder must make the notification within five days of the day on which such shareholder learnt, or should have learned, about the state registration of the report on the placement of the shares.

Listing and Delisting of Shares on a Russian Stock Exchange

RusHydro's shares are included in quotation list "A1" of the RTS and MICEX. Pursuant to Russian listing rules, a Russian stock exchange may include shares of a company in quotation list "A1" if, among other things:

- the company has registered a prospectus with the FSFM with respect to such shares;
- the company has registered a report on, or filed a notice of, the results of the share issuance with the FSFM;
- the company complies with Russian securities laws and regulations;
- no person, together with its affiliates, owns more than 75% of the company's shares;
- the company has assumed certain information undertakings;
- the company's market capitalisation is not less than RUB 10 billion for ordinary shares and RUB 3 billion for preferred shares;
- the company has existed for at least three years; and
- the average monthly trading volume in the shares, based on the three preceding months, is not less than RUB 25 million.

In addition, the inclusion of the shares of a company in quotation list "A1" is subject to the following requirements:

- the company has a board of directors which includes at least three independent directors;
- the company's internal documents require its sole executive body, management company and its officers or sole manager or members of the board of directors or collective executive body to disclose information on their holding, sale and purchase of the company's securities;
- the company's board of directors approves regulations on the use of insider information and procedures of internal control over the company's financial activities;
- the company has an audit committee consisting only of non-executive directors and chaired by an independent director;
- the company has not had losses in two of three preceding years;
- the company prepares annual audited IFRS Financial Statements;
- the internal audit committee provides its review of the external auditor's report to the company's shareholders before the annual general meeting of shareholders; and
- the company's charter provides that the company must give shareholders at least 30 days' notice of a general meeting of shareholders, unless Russian law provides for a longer notification period.

A Russian stock exchange may exclude a company's shares from quotation list "A1" if, among other things:

- the company cancels the shares;
- the company has ceased to exist as a result of a reorganisation or liquidation;
- the company repeatedly violates Russian securities laws and regulations;

- the company has losses in the three preceding years;
- the company fails to comply with the requirements for the inclusion of its shares in the quotation list; or
- the average monthly trading volume in the shares, based on the six preceding months, falls below RUB 50 million.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Background

On 14 April 2008, RusHydro and the Depositary signed the GDR Deposit Agreement pursuant to which the GDRs were issued. The GDR Deposit Agreement is governed by the laws of England & Wales.

Each GDR is subject to the terms and conditions set out in the GDR Deposit Agreement (subject to amendment) and reproduced below. These terms and conditions are endorsed on each GDR certificate. References in these terms and conditions to the "Deposit Agreement" are to the GDR Deposit Agreement only.

Terms and Conditions of the GDRs

The Global Depositary Receipts ("GDRs") represented by this certificate are each issued in respect of 100 ordinary shares of par value RUB 1 each (the "Shares") in JSC "RUSHYDRO" (the "Company") pursuant to and subject to an agreement dated 14 April 2008, and made between the Company and The Bank of New York, now known as The Bank of New York Mellon, in its capacity as depositary (the "Depositary") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank (Eurasia) ZAO as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York, now known as The Bank of New York Mellon, and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to ING Bank (Eurasia) ZAO or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Subject to Condition 1.9, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
 - (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted

by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10), if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the original issue date of the GDRs) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 Subject to Condition 1.11, the Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10) by or on behalf of any investor who is to become

the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a U.S. person (as defined in Regulation S under the U.S. Securities Act), is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

In connection with a deposit of Shares which has been made pursuant to the Reorganisation as provided in Condition 1.4, if the Depositary, in good faith, determines that the beneficial owner of the GDRs issued in respect of those Deposited Shares is not eligible to be such a beneficial owner or, in the event that the Depositary, in good faith, determines that the beneficial owner does not comply with the requirements of this Agreement or of the Conditions in relation to that deposit, the Depositary will be entitled either (i) to sell the relevant GDRs to another party; or (ii) to withdraw and sell the relevant Deposited Shares to another party and, in both cases, will remit the net proceeds, after deduction of the Depositary's fees and expenses, to the person entitled thereto in accordance with the instructions received by the Depositary.

For the avoidance of doubt, the Depositary will not have any obligation or responsibility whatsoever to monitor or supervise the observance by the person who is to be the beneficial owner of the GDRs or to monitor whether or not that person is eligible to be a beneficial owner of GDRs. Clause 9.5 of the Deposit Agreement will apply in respect of any sale by the Depositary pursuant to these provisions.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to, or a different state registration number from, the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Regulation S Master GDR and/or temporary Rule 144A Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Regulation S Master GDR and/or a Rule 144A Master GDR (by increasing the total number of GDRs evidenced by the relevant Regulation S Master GDR or Rule 144A Master GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Regulation S Master GDR or a Rule 144A Master GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or

represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRS or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems reasonably appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder with any particular Pre-Releasee on a case by case basis as the Depositary deems reasonably appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.13 of the Deposit Agreement and Condition 1.10).

- 1.8 Notwithstanding anything in the Deposit Agreement or these Conditions to the contrary, any GDRs issued in respect of any new Shares issued by the Company shall be issued on a provisional basis represented by a temporary Master GDR until the Depositary has received written notice from the Company that a Placement Report (Notification) in relation to such Shares has been registered or filed, as the case may be, with the FSFM, at which time the relevant temporary GDRs shall be automatically exchanged for GDRs represented by an existing Master GDR. Prior to receiving written notice from the Company as required by this Condition, notwithstanding any other terms of the Deposit Agreement or these Conditions, where new Shares are deposited into a temporary Facility subject to this Condition: (i) the Depositary shall not permit such Shares to be withdrawn from the temporary Facility, or vote or cause to be voted any of such Shares; and (ii) Holders shall not be entitled to give any voting instructions in respect of such Shares.
- 1.9 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Russian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Russian law or regulation, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any

filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Russian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Clause in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Clause in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

- 1.10 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 Parts A and B and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.
- 1.11 The Depositary shall not accept any deposit of Shares prior to deposits occurring as a result of (i) the Reorganisation or (ii) the initial offering by the Company of Shares in the form of depositary receipts, unless the Company expressly permits such deposit and such deposit of Shares complies with any relevant limitations set by the Company and notified in writing by the Company to the Depositary for this purpose.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register is closed, or the Share Register is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

- 3.1 The GDRs are in registered form, each corresponding to 100 Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”). Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a “QIB”) in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.6 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 22, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

- 4.1.1 in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- 4.1.2 the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall distribute or cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 22, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

- 7.1 if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in USD or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

- 7.2 if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- 7.3 if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- 7.4
- (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in USD or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
 - (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
 - (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and U.S. counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription (which, without limitation, shall not include any registration of such distribution, sale or subscription under the

Securities Act) by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

- 9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company for holders of Shares as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 22, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master

GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company for holders of Shares as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

- 11.1 Payments of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed, to the extent reasonably practicable to apply for such authorisation, consent, registration or permit or file such report itself or on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property to be deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report. The Depositary may at its discretion, where assistance is reasonably requested by the Company, assist the Company, at the Company's expense, to obtain any authorisation, consent, registration or permit, or to file any report to a governmental or administrative authority, required to be obtained or filed by the Company pursuant to this clause, provided that the Depositary shall in no circumstances take any action pursuant to this clause which is in conflict with market practice or is in a capacity other than its capacity as Depositary.

12. Voting Rights

- 12.1 Subject to Condition 1.9, Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with the terms of this Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12 and Clause 5 of the Deposit Agreement.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies (but not more than 10 copies), as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against, or abstain from voting on, each and any resolution specified in the agenda for the meeting. Based on the notices, agenda and requests provided by the Company, the Depositary shall prepare and send corresponding notices to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company for the holders of Shares or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 24. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received from Holders.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Deposited Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by such Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall have no obligation to, and shall not, exercise any voting rights attaching to such Deposited Shares.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Condition 12.3 or 12.4, the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3 or 12.4 above the Depositary shall appoint the Custodian or any other person designated by the Depositary as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition 12. The

Depository shall not be required to take any action required by this Condition 12 if (i) it reasonably requests that the Company procures that the Depository receives an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depository) at the expense of the Company to the effect that votes cast under the voting arrangements contemplated in Clause 5 of the Deposit Agreement and this Condition 12 are valid and binding on the Company under Russian law and the statutes of the Company and that the Depository is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depository will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.

- 12.8 By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 and Clause 5 of the Deposit Agreement as each may be amended from time to time in order to comply with applicable Russian law.
- 12.9 The Depository shall not, and the Depository shall ensure that the Custodian and its nominee do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares other than in accordance with instructions given in accordance with this Condition 12.
- 12.10 Notwithstanding any other term of this Condition 12 or Clause 5 of the Deposit Agreement, prior to the Depository being notified in writing by the Company that a Placement Report (Notification) in respect of new Shares deposited into a Facility has been registered or filed, as the case may be, with the FSFM, the Depository shall have no obligation to take any action pursuant to this Condition 12 or Clause 5 of the Deposit Agreement to procure the exercise of votes arising in relation to such Shares.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depository

The Depository shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depository at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depository may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depository from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depository for the payment of Charges shall be made by giving notice pursuant to Condition 22.

14. Liability

- 14.1 In acting hereunder the Depository shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depository, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depository, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any

written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall use its reasonable endeavours to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 20 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 21, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any reputable lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the General Director of the Company or by a person duly authorised by the General Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary. Notwithstanding the foregoing, the Depositary shall provide a prior written notice of any such delegation, or sub-delegation or any renewal, extension or termination thereof, unless either (i) such delegation, sub-delegation, renewal, extension or termination is in the usual course of business of the Depositary; or (ii) such delegation, sub-delegation, renewal, extension or termination is to a subsidiary or affiliate of the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any reputable banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance of or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the

Depository have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depository to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depository shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depository shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depository becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depository may require, replacement GDRs will be issued by the Depository and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depository or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depository's Fees, Costs and Expenses

- 16.1 The Depository shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs or the cancellation of GDRs upon the withdrawal of Deposited Property: USD5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depository to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of USD1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depository to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
 - (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of USD0.02 or less per GDR for each such dividend or distribution;
 - (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: USD5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
 - (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of USD0.05 or less per GDR;
 - (vii) a fee of USD0.02 or less per GDR (or portion thereof) per annum for depository services which shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

- 17.1 The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 22. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

19. Resignation and Termination of Appointment of the Depositary

- 19.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 22.

- 19.2 Upon the termination of the appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

20. Termination of Deposit Agreement

- 20.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 19 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 22. If by the date on which the termination is due to take effect the Company has notified the Depositary that it has appointed a successor Depositary and such successor Depositary has accepted such appointment: (i) the Deposit Agreement shall not be terminated; (ii) Conditions 20.2 and 20.3 shall not apply; (iii) a notice of such appointment and acceptance of the successor Depositary shall be given by the Depositary to the Holders as soon as reasonably practicable following receipt by the Depositary of the notification from the Company; and (iv) the appointment of the Depositary shall terminate on the date which the Depositary notifies the Company to be the first date on which it is reasonably practicable for such appointment to terminate, and upon such termination the provisions of Condition 19.2 shall apply.
- 20.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 20.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with

any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

21. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 21) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 21, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

22. Notices

- 22.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 22.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23. Reports and Information on the Company

- 23.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

- (i) in respect of the financial year ended on 31 December 2007 and in respect of each financial year thereafter the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, reported upon by independent public accountants selected by the Company, as soon as practicable after the approval of such balance sheets and statements of income by the relevant annual general shareholders' meeting of the Company; and
 - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company as soon as practicable after the same are published;
 - (iii) if the Company publishes quarterly statements for holders of Shares, such quarterly financial statements as soon as practicable after the same are published.
- 23.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 23.3 For so long as any of the GDRs or the Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

24. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice by mail, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) sent by mail to such holders by the Company (or such number of copies of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

25. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

26. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

27. Governing Law

27.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 and Schedule 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has also agreed in the Deposit Agreement, and the Deed Poll to finally resolve Disputes by arbitration under the Rules of the London Court of International Arbitration.

27.2 Any dispute, controversy or claim, arising out of or in connection with these Conditions, whether in tort, contract, statute or otherwise, including any question regarding its existence, validity, interpretation, breach or termination (a “**Dispute**”) shall be referred to and finally resolved by arbitration and not litigation. In such case, the dispute shall be referred to arbitration under the Rules of the London Court of International Arbitration (the “**Rules**”) which Rules are deemed to be incorporated by reference into this clause. Judgement upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

27.3 The Depositary and the GDR Holders agree that:

- (i) The number of arbitrators shall be three. Two of the arbitrators shall be nominated by the Depositary, and the claiming GDR Holders, respectively, in the Request for Arbitration and the Response, and the third, who shall be the Chairman of the tribunal, shall be nominated by the two nominated arbitrators within 30 days of the last of their appointments. In the event of a failure to nominate an arbitrator by the Depositary or the relevant GDR Holders or a failure to agree the Chairman of the tribunal, the London Court of International Arbitration shall, at the written request of the Depositary or the relevant GDR Holders, make such appointments forthwith;
- (ii) The place of the arbitration shall be London, England, and the proceedings shall also take place in London, England;
- (iii) The language to be used in the arbitration proceedings shall be English; and
- (iv) The decision and award of the arbitration shall be final and binding from the day it is made.

27.4 The Depositary and the GDR Holders agree that the tribunal shall have the power to make such directions and any provisional, interim or partial award as it considers just and desirable.

27.5 If any Dispute raises issues which are substantially the same as or connected with issues raised in a Dispute which has already been referred to arbitration (an “**Existing Dispute**”), or arises out of substantially the same facts as are the subject of an Existing Dispute, or a dispute, controversy or claim, arising out of or in connection with the Deposit Agreement or the Deed Poll, whether in tort, contract, statute or otherwise, including any question regarding its existence, validity, interpretation, breach or termination (in any such case a “**Related Dispute**”), then the tribunal appointed or to be appointed in respect of any such Existing Dispute shall also be appointed as the tribunal in respect of any Related Dispute, save where the tribunal considers that such appointment would be inappropriate.

27.6 Upon the request of one of the parties to a Dispute or Related Dispute or the Depositary or a GDR Holder which itself wishes to be joined in any reference to arbitration proceedings in relation to a Dispute or Related Dispute, the tribunal may join any party to any reference to

arbitration proceedings in relation to that Dispute or Related Dispute and may make a single, final award determining all Disputes or Related Disputes between them. Each of the Depositary and the GDR Holders hereby consents to be joined to any reference to arbitration proceedings in relation to any dispute at the request of a party to that Dispute or Related Dispute, and to accept as joinder any party requesting to be joined under this Condition 27.6.

- 27.7 Where, pursuant to the above provisions, the same tribunal has been appointed in relation to an Existing Dispute and one or more Related Disputes, the tribunal may, with the agreement of all the parties concerned or upon the application of one of the parties, being a party to each of the Disputes, order that the whole or part of the matters at issue shall be heard together upon such terms or conditions as the tribunal thinks fit. The tribunal shall have the power to make such directions and any provisional, interim or partial awards as it considers just and desirable.
- 27.8 Nothing in these dispute resolution provisions shall be construed as preventing either party from seeking conservatory or similar interim relief in any court of competent jurisdiction.
- 27.9 Any award of the tribunal shall be binding from the day it is made, and the Depositary and the GDR Holders agree to waive any right to appeal to any court of law, insofar as such waiver may be validly made. Neither the Depositary nor the GDR Holders shall be deemed, however, to have waived any right to challenge any award on the ground that the tribunal lacked substantive jurisdiction and / or the ground of serious irregularity affecting the tribunal, the proceedings or the award.
- 27.10 In the event that the Depositary is made a party to or is otherwise required to participate in any litigation, arbitration or proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully co-operate with the Depositary in connection with such litigation, arbitration or proceeding and shall not resist being joined to any such legal actions if the Depositary so requests.
- 27.11 Without prejudice to the powers of the tribunal provided in the Rules, statute or otherwise, the tribunal shall have power at any time, following the written request (with reasons) of any party at any time, and after due consideration of any written and/or oral response(s) to such request made within such time periods as the tribunal shall determine, to make an award in favour of the claimant(s) (or the respondent(s) if a counterclaim) in respect of any claims (or counterclaims), if it appears to the tribunal that there is no reasonably arguable defence to those claims (or counterclaims), either at all or except as to the amount of any damages or other sum to be awarded.
- 27.12 The parties agree that in no circumstances will they request the arbitrators to, and the arbitrators shall have no authority to, exercise any power to award damages which are not calculated by reference to the relevant party's actual costs, or to award any loss of profit whatsoever or any consequential, special or punitive damages.
- 27.13 The Deposit Agreement may be executed in the form of both an English language document and a document translated into Russian, but in the event of any inconsistency or conflict between the terms or interpretation of the English language form and the Russian form, the terms and interpretation of the English language form shall prevail and shall be regarded as definitive.

SUMMARY OF PROVISIONS RELATING TO THE GDRS IN MASTER FORM

The GDRs are represented by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form, in the respective forms set out in Schedule 2 to the GDR Deposit Agreement.

The Regulation S Master GDR has been delivered by the Depositary to a common depositary in London for Clearstream and Euroclear and is registered in the name of the common nominee for Clearstream and Euroclear. The Rule 144 Master GDR is held by the Depositary (as custodian for DTC) and is registered in the name of DTC or its nominee.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs set out in this Prospectus (see “Terms and Conditions of the Global Depositary Receipts”). The following is a summary of certain of those provisions. Unless otherwise defined, the terms used below shall have the same meaning as in the terms and conditions, and references in this section to the “Deposit Agreement” are to the GDR Deposit Agreement only.

Exchange of Master GDRs for Certificates in Definitive Registered Form Representing GDRs

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part and until exchanged in full are subject to the Conditions and the Deposit Agreement. The Depositary irrevocably undertakes to deliver certificates in definitive registered form in exchange for a Master GDR to the relevant GDR Holder in the event that:

- (i) DTC (in the case of the Rule 144A Master GDR), or Euroclear or Clearstream (in the case of the Regulation S Master GDR) or any successor advises the Company in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) in the case of the Rule 144A Master GDR only, DTC or any successor ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”); or
- (iii) either DTC (in the case of the Rule 144A Master GDR), or Euroclear or Clearstream (in the case of the Regulation S Master GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days;
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the Master GDRs in definitive registered form (provided that the Depositary shall have no obligation to so determine or to attempt to so determine),

within 60 calendar days of the occurrence of the relevant event. Any such exchange shall be at the expense of the relevant GDR Holder.

Upon any exchange of a Master GDR for GDRs in definitive form, or any exchange of interests between a Rule 144A Master GDR and a Regulation S Master GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7, and 10 or any reduction in the number of GDRs represented hereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details will be entered by the Depositary on the Register maintained by the Depositary (which shall be maintained at all times outside the United Kingdom and Russia) whereupon the number of Deposited Shares represented by the Master GDR will be reduced or increased (as the case may be) accordingly. If the number of GDRs represented by this Master GDR is reduced to zero this Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary under the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs represented by a Master GDR will be made by the Depositary through DTC (in the case of a Rule 144A Master GDR) or Euroclear and Clearstream (in the case of the Regulation S Master GDR) on behalf of persons entitled thereto upon receipt of funds therefor from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records of the Depositary being adjusted to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of Master GDRs will have voting rights in respect of the underlying shares as set out in Condition 12 and Clause 5 of the Deposit Agreement. Voting rights will be exercised by the Depositary only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law, which, if the Depositary so reasonably requests, shall be subject to an opinion being given by the Company's legal counsel, such counsel being reasonably satisfactory to the Depositary, that the Depositary can do so. In the absence of an opinion from legal counsel as aforesaid, the Depositary shall not exercise any voting rights and shall have no liability to the Company or any Holder for any action taken or not taken as the case may be.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by DTC (in the case of a Rule 144A Master GDR) or Euroclear or Clearstream (in the case of the Regulation S Master GDR), on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by DTC (in the case of a Rule 144A Master GDR) or Euroclear or Clearstream (in the case of the Regulation S Master GDR). The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable and to issue voting instructions in respect of the Deposited Property represented by such GDR.

Notices

For as long as a Master GDR is registered in the name of DTC or its nominee (in the case of a Rule 144A Master GDR) or a nominee for a common depositary holding on behalf of Euroclear and Clearstream (in the case of the Regulation S Master GDR), notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC (in the case of a Rule 144A Master GDR) or Euroclear and Clearstream (in the case of the Regulation S Master GDR), for communication to Holders in substitution for publications required by Condition 22.

Information (applicable to Rule 144A Master GDRs only)

For so long as any of the GDRs or the Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a) (3) under the U.S. Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed to supply to the Depositary such information in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise will comply with the requirements of Rule 144A(d)(4) under the Securities Act;

Governing Law of Master GDRs

The Master GDRs are governed by and construed in accordance with English law.

U.S. Securities Act and Other Legends

The Master GDRs bear the following legends.

Legends for Regulation S Master GDRs

THIS REGULATION S MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC “RUSHYDRO” REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE ORIGINAL ISSUE DATE OF THE GDRs) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER AND THAT RULE 144A GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY A RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, TO OR FOR THE ACCOUNT OF SUCH QIB.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD REFERRED TO ABOVE, THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS GDR CERTIFICATE, AGREES, FOR THE BENEFIT OF JSC “RUSHYDRO” AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF DEPOSITED PROPERTY OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.

Legends for Rule 144A Master GDRs

THIS RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC “RUSHYDRO” REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JSC “RUSHYDRO” THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

THE HOLDER HEREOF, BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS GDR CERTIFICATE, AGREES, FOR THE BENEFIT OF JSC “RUSHYDRO” AND THE DEPOSITARY NAMED BELOW THAT THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF THE BANK OF NEW YORK AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF DEPOSITED PROPERTY OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE COURTS OF ENGLAND.

TERMS AND CONDITIONS OF THE AMERICAN DEPOSITARY RECEIPTS

Each ADR is subject to the terms and conditions set out below. References in these terms and conditions to (i) the “Deposit Agreement” are to the ADR Deposit Agreement only and (ii) an “American Depositary Share” are to a security created under the ADR Deposit Agreement representing rights with respect to Deposited Securities (as defined below) and represented by an ADR. Each ADR also bears the following legend:

IT IS EXPECTED THAT SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF JSC “RUSHYDRO” IN THE NAME OF THE DEPOSITARY OR ITS NOMINEE OR OF THE CUSTODIAN OR ITS NOMINEE. OWNERS AND HOLDERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES CERTAIN RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN THE UNITED STATES SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Terms and Conditions

1. The Deposit Agreement

This American Depositary Receipt is one of an issue (herein called “Receipts”), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of June 30, 2009 (herein called the “Deposit Agreement”), by and among the Company, the Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder, each of whom by accepting American Depositary Shares agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and holders and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called “Deposited Securities”). Copies of the Deposit Agreement are on file at the Depositary’s Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms defined in the Deposit Agreement and not defined herein shall have the meanings set forth in the Deposit Agreement.

2. Surrender of American Depositary Shares and Withdrawal of Deposited Securities

Upon surrender at the Corporate Trust Office of the Depositary of American Depositary Shares, accompanied by such documents as the Depositary may reasonably require (including a purchase/sale contract relating to the transfer of the Shares), and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner of those American Depositary Shares is entitled to delivery, to him or as instructed, as permitted by applicable law, of the amount of Deposited Securities at the time represented by those American Depositary Shares. Delivery of such Deposited Securities may be made by the delivery of (a) certificates or other documents evidencing title (including extracts from the Share Register) in the name of such Owner or as ordered by him or properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of such Receipts to such Owner or as ordered by him. Such delivery will be made without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank. The Depositary may require the surrendering Owner to execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct the

Custodian to cause the transfer and recordation by the Russian Share Registrar on the Share Register of the Shares being withdrawn in the name of such Owner or as directed by him as above provided, and the Company shall ensure that such transfer and recordation is promptly effected. Upon such transfer and recordation, the Custodian shall deliver at the Moscow, the Russian Federation office of such Custodian, subject to Sections 2.06, 3.01 and 3.02 of the Deposit Agreement and to the other terms and conditions of the Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, documents evidencing title (including extracts from the Share Register) for the amount of Deposited Securities represented by the surrendered American Depositary Shares, except that the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by those American Depositary Shares, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

At the request, risk and expense of any Owner so surrendering American Depositary Shares, and for the account of such Owner, the Depositary shall direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates, if applicable, and other proper documents of title for, the Deposited Securities represented by the surrendered American Depositary Shares to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction shall be given by letter or, at the request, risk and expense of such Owner, by cable, telex or facsimile transmission.

3. *Transfers, Split-Ups, and Combinations of Receipts*

Transfers of American Depositary Shares may be registered on the books of the Depositary by the Owner in person or by a duly authorized attorney, upon surrender of those American Depositary Shares properly endorsed for transfer or accompanied by proper instruments of transfer, in the case of a Receipt, or pursuant to a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10 of the Deposit Agreement), in the case of uncertificated American Depositary Shares, and in either case, duly stamped as may be required by the laws of the State of New York and of the United States of America. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. The Depositary, upon surrender of certificated American Depositary Shares for the purpose of exchanging for uncertificated American Depositary Shares, shall cancel those certificated American Depositary Shares and send the Owner a statement confirming that the Owner is the owner of the same number of uncertificated American Depositary Shares. The Depositary, upon receipt of a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10 of the Deposit Agreement) from the Owner of uncertificated American Depositary Shares for the purpose of exchanging for certificated American Depositary Shares, shall cancel those uncertificated American Depositary Shares and deliver to the Owner the same number of certificated American Depositary Shares. As a condition precedent to the delivery, registration of transfer, or surrender of any American Depositary Shares or split-up or combination of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require payment from the depositor of the Shares or the presenter of the Receipt or instruction for registration of transfer or surrender of American Depositary Shares not evidenced by a Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in the Deposit Agreement, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement.

The delivery of American Depositary Shares against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of American Depositary Shares in particular instances may be refused, or the registration of transfer of outstanding American Depositary Shares generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in the Deposit Agreement or this Receipt, the surrender of outstanding American

Depository Shares and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the American Depositary Shares or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares for such offer and sale.

4. *Liability of Owner for Taxes*

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any American Depositary Shares or any Deposited Securities represented by any American Depositary Shares, such tax or other governmental charge shall be payable by the Owner of such American Depositary Shares to the Depositary. The Depositary may refuse to register any transfer of those American Depositary Shares or any withdrawal of Deposited Securities represented by those American Depositary Shares until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner thereof any part or all of the Deposited Securities represented by those American Depositary Shares, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner shall remain liable for any deficiency.

5. *Warranties on Deposit of Shares*

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant, that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and free of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the deposit of such Shares and the sale of American Depositary Shares representing such Shares by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and delivery of American Depositary Shares.

6. *Filing Proofs, Certificates, and Other Information*

Any person presenting Shares for deposit or any Owner or holder may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Russian Share Registrar, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any American Depositary Shares or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that all conditions to such deposit have been satisfied by the person depositing such Shares under Russian laws and regulations and any necessary approval has been granted by any governmental body in the Russian Federation that is then performing the function of the regulation of currency exchange.

7. *Charges of Depositary*

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering American Depositary Shares or to whom American Depositary Shares are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the American Depositary Shares or Deposited Securities or a delivery of American Depositary Shares pursuant to Section 4.03 of the Deposit Agreement), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share Register of the Company maintained by the Russian Share Registrar and applicable to transfers of Shares to or from the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the terms of the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign

currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the delivery of American Depositary Shares pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of American Depositary Shares pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 of the Deposit Agreement, (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners, (8) in addition to any fee charged under clause 6, a fee of \$.02 or less per American Depositary Share (or portion thereof) per annum for depositary services, which will be payable as provided in clause 9 below, (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 of the Deposit Agreement and shall be payable at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary, subject to Article 8 hereof, may own and deal in any class of securities of the Company and its affiliates and in American Depositary Shares.

8. *Pre-Release of Receipts*

Unless requested in writing by the Company to cease doing so, notwithstanding Section 2.03 of the Deposit Agreement, the Depositary may deliver American Depositary Shares prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement (a "Pre-Release"). The Depositary may, pursuant to Section 2.05 of the Deposit Agreement, deliver Shares upon the surrender of American Depositary Shares that have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such American Depositary Shares have been Pre-Released. The Depositary may receive American Depositary Shares in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom American Depositary Shares or Shares are to be delivered, that such person, or its customer (i) owns the Shares or American Depositary Shares to be remitted, as the case may be, (ii) assigns all beneficial right, title and interest in such Shares or Receipts (as the case may be) to the Depositary in its capacity as such and for the benefit of the Owners and Holders and (iii) will not take any action with respect to such Shares or Receipts (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder, with any particular Pre-Releasee, on a case by case basis as the Depositary deems reasonably appropriate. The number of American Depositary Shares which are outstanding at any time as a result of Pre-Release will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; *provided, however*, that the Depositary reserves the right to change or disregard such limit from time to time as it deems reasonably appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

9. *Title to Receipts*

It is a condition of this Receipt and every successive Owner and holder of this Receipt by accepting or holding the same consents and agrees that when properly endorsed or accompanied by

proper instruments of transfer, shall be transferable as certificated registered securities under the laws of New York. American Depositary Shares not evidenced by Receipts shall be transferable as uncertificated registered securities under the laws of New York. The Depositary, notwithstanding any notice to the contrary, may treat the Owner of American Depositary Shares as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement and for all other purposes, and neither the Depositary nor the Company shall have any obligation or be subject to any liability under the Deposit Agreement to any holder of American Depositary Shares unless that holder is the Owner of those American Depositary Shares.

10. *Validity of Receipt*

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been (i) executed by the Depositary by the manual signature of a duly authorized officer of the Depositary or (ii) executed by the facsimile signature of a duly authorized officer of the Depositary and countersigned by the manual signature of a duly authorized signatory of the Depositary or a Registrar.

11. *Reports; Inspection of Transfer Books*

The Company publishes information in English required to maintain the exemption from registration under Rule 12g3-2(b) under the Securities Exchange Act of 1934 on its Internet web site or through an electronic information delivery system generally available to the public in its primary trading market. The Company's Internet web site address is www.eng.rushydro.ru.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also, upon written request by the Company, send to Owners (i) copies of such reports when furnished by the Company pursuant to the Deposit Agreement, (ii) copies of any written communications provided to the Depositary by the Russian Share Registrar pursuant to Section 5.13(b)(v), and (iii) copies of any notices given or required to be given by the Depositary pursuant to Section 5.13(d). Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English to the extent such materials are required to be translated into English pursuant to any regulations of the Commission. Any such communications furnished to the Depositary by the Russian Share Registrar shall be furnished in English.

The Depositary will keep books, at its Corporate Trust Office, for the registration of American Depositary Shares and transfers of American Depositary Shares which at all reasonable times shall be open for inspection by the Owners, *provided* that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the American Depositary Shares.

12. *Dividends and Distributions*

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.05 of the Deposit Agreement, convert such dividend or distribution into Dollars and shall, as soon as practicable, distribute the amount thus received (net of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; *provided, however*, that in the event that the Custodian or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution in respect of any Deposited Securities an amount on account of taxes or other governmental charges, the amount distributed to the Owner of the American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Section 4.11 and 5.09 of the Deposit Agreement, whenever the Depositary receives any distribution other than a distribution described in Section 4.01, 4.03 or 4.04 of the Deposit Agreement, the Depositary will, as promptly as practicable, cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for

accomplishing such distribution; *provided, however*, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or holders) the Depositary deems such distribution not to be reasonably practicable or to be unlawful, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement) will be distributed by the Depositary to the Owners of Receipts entitled thereto all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. The Depositary may withhold any distribution of securities under Section 4.02 of the Deposit Agreement if it has not received satisfactory assurances from the Company that the distribution does not require registration under the Securities Act of 1933 after having requested such assurances from the Company. The Depositary may sell, by public or private sale, an amount of securities or other property it would otherwise distribute under this Article that is sufficient to pay its fees and expenses in respect of that distribution.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary shall cause to be delivered to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and after deduction or upon issuance of American Depositary Shares, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement (and the Depositary may sell, by public or private sale, an amount of Shares received sufficient to pay its fees and expenses in respect of that distribution). The Depositary may withhold any such delivery of American Depositary Shares if it has not received satisfactory assurances from the Company that such distribution does not require registration under the Securities Act of 1933 after having requested such assurances from the Company. If and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Section 4.01 of the Deposit Agreement to the Holders entitled thereto. In lieu of delivering fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. If additional American Depositary Shares are not so delivered, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

13. Rights

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason,

the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner under the Deposit Agreement, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of the Deposit Agreement, and shall, pursuant to Section 2.03 of the Deposit Agreement, deliver American Depositary Shares to such Owner. In the case of a distribution pursuant to the second paragraph of this Article 13, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary shares subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any American Depositary Shares or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act; *provided*, that nothing in the Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act of 1933, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

14. Conversion of Foreign Currency

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall as soon as practicable convert or cause to be converted by sale or in any

other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any American Depositary Shares or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

15. *Record Dates*

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date as close to the record date set by the Company for holders of Shares as is reasonably practicable (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fee or charge assessed by the Depositary pursuant to the Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

16. *Voting of Deposited Securities*

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested by the Company, the Depositary shall, as soon as practicable thereafter, mail to the Owners of Receipts a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of the law of the Russian Federation and of the Charter of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given. Upon the written request of an Owner of American Depositary Shares on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavor insofar as practicable to vote or cause to be voted the amount of Shares or other Deposited Securities represented by those American Depositary Shares in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions.

The Depositary shall not be required to take any action required by Section 4.07 of the Deposit Agreement if (i) it reasonably requests, within a reasonable time of receipt by it of a notice of any meeting from the Company, that the Company procures that the Depositary receives an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that votes cast under the voting arrangements contemplated in Section 4.07 of the Deposit Agreement are valid and binding on the Company under the law of the Russian Federation and the statutes of the Company and that the Depositary is permitted under the law of the Russian Federation to exercise votes in accordance with the provisions of Section 4.07 of the Deposit Agreement but that in doing so the Depositary will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.

If the Depositary is advised in the opinion that it is not permitted by the law of the Russian Federation to exercise the voting rights relating to the Shares or other Deposited Securities represented by those American Depositary Shares differently (so that a portion of the Shares or Deposited Securities may be voted for a resolution and a portion of the Shares or Deposited Securities may be voted against a resolution), the Depositary shall, if the opinion referred to above confirms it to be permissible under the law of the Russian Federation, calculate from the voting instructions that it has received from all Owners (x) the aggregate number of votes in favor of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favor of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favor of such resolution and such aggregate number of votes opposed to such resolution.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in Section 4.07 of the Deposit Agreement sufficiently prior to the instruction cutoff date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions set forth in Section 4.07 of the Deposit Agreement.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if the Company will request the Depositary to act under this Section 4.07 of the Deposit Agreement, the Company shall endeavor to give the Depositary notice of any such meeting or solicitation and details concerning the matters to be voted upon reasonably sufficiently in advance of the meeting date.

17. Changes Affecting Deposited Securities

Upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, or upon the redemption or cancellation by the Company of the Deposited Securities, any securities, cash or property which shall be received by the Depositary or a Custodian in exchange for, in conversion of, in lieu of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may deliver additional American Depositary Shares as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

18. Liability of the Company and Depositary

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or holder (i) if by reason of any provision of any present or future law or regulation of the United States, the Russian Federation or any other country, or of any governmental or regulatory authority, or stock exchange, or by reason of any provision, present or future, of the Charter of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from or be subject to any civil or criminal penalty on account of doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed, (ii) by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, (iii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement, (iv) for

the inability of any Owner or holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Securities but is not, under the terms of the Deposit Agreement, made available to Owners or Holders, or (v) for any special, consequential or punitive damages for any breach of the terms of the Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02 or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or Holders, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the American Depositary Shares, on behalf of any Owner or holder or other person. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, *provided* that in connection with the issue out of which such potential liability arises, the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary shall not be liable for the acts or omissions of any securities depositary, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Securities or otherwise. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities or for the manner in which any such vote is cast or the effect of any such vote, *provided* that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

19. Resignation and Removal of the Depositary; Appointment of Successor Custodian

The Depositary may at any time resign as Depositary under the Deposit Agreement by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, to become effective upon the later of (i) the 120th day after delivery of the notice to the Depositary and (ii) the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary in its discretion and with the approval by the Company, which may not be unreasonably withheld or delayed, may appoint a substitute or additional custodian or custodians, each of which shall thereafter be one of the Custodians hereunder.

20. Amendment

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or holders in any respect which they may deem necessary or desirable. Section 5.13(a) of the Deposit Agreement may be amended by the Company without the consent of the Depositary upon thirty days' prior written notice to Owners of outstanding Receipts as specified in the next succeeding sentence. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding American Depositary Shares until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding American Depositary Shares. Every Owner and holder of American Depositary Shares, at the time any amendment so becomes effective, shall be deemed, by continuing to hold such American Depositary Shares or any interest therein, to consent and agree to

such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner to surrender American Depositary Shares and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

21. Termination of Deposit Agreement

The Company may at any time terminate the Deposit Agreement by instructing the Depositary to mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date included in such notice. The Depositary may likewise terminate the Deposit Agreement, if at any time 90 days shall have expired after the Depositary delivered to the Company a written resignation notice and if a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement; in such case the Depositary shall mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date. On and after the date of termination, the Owner of American Depositary Shares will, upon (a) surrender of such American Depositary Shares, (b) payment of the fee of the Depositary for the surrender of American Depositary Shares referred to in Section 2.05, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by those American Depositary Shares. If any American Depositary Shares shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of American Depositary Shares, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of American Depositary Shares (after deducting, in each case, the fee of the Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of four months from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the *pro rata* benefit of the Owners of American Depositary Shares that have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

22. DTC Direct Registration System and Profile Modification System

- (a) Notwithstanding the provisions of Section 2.04 of the Deposit Agreement, the parties acknowledge that the Direct Registration System (“DRS”) and Profile Modification System (“Profile”) shall apply to uncertificated American Depositary Shares upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the Depositary may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the Depositary to the Owners entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an Owner, to direct the Depositary to register a transfer of those American Depositary Shares to DTC or its nominee and to deliver those American Depositary Shares to the DTC account of that DTC participant without receipt by the Depositary of prior authorization from the Owner to register such transfer.
- (b) In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties understand that the Depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of

an Owner in requesting registration of transfer and delivery described in subsection (a) has the actual authority to act on behalf of the Owner (notwithstanding any requirements under the Uniform Commercial Code). For the avoidance of doubt, the provisions of Sections 5.03 and 5.08 of the Deposit Agreement shall apply to the matters arising from the use of the DRS. The parties agree that the Depositary's reliance on and compliance with instructions received by the Depositary through the DRS/Profile System and in accordance with the Deposit Agreement, shall not constitute negligence or bad faith on the part of the Depositary.

23. *Arbitration, Submission to Jurisdiction; Waiver of Immunities*

The Deposit Agreement provides that any controversy, claim, cause of action or other dispute brought by any party to the Deposit Agreement against the Company arising out of or relating to the Shares or other Deposited Securities, the American Depositary Shares, the Receipts or the Deposit Agreement, or the breach thereof, shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration, and that judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof; *provided, however*, that in the event of any third-party litigation to which the Depositary is a party and to which the Company may properly be joined, the Company may be so joined in any court of competent jurisdiction in which such litigation is proceeding; and *provided*, further, that any such dispute brought by a party to the Deposit Agreement against the Company relating to or based upon the provisions of the Federal securities laws of the United States or the rules and regulations promulgated thereunder shall be submitted to arbitration as provided in the Deposit Agreement if, but only if, so elected by the claimant. The Deposit Agreement further provides that any securities dispute not submitted to arbitration under the Deposit Agreement shall be litigated in the Federal or state courts in the Borough of Manhattan, The City of New York.

In the Deposit Agreement, the Company has (i) irrevocably waived personal service of process upon it in any suit or proceeding (including, but not limited to, any arbitral proceeding as contemplated by Section 7.06 of the Deposit Agreement) arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement and consented that any such service of process may be made by certified or registered mail, return receipt requested, directed to the Company at its address last specified for notices hereunder, and service so made shall be deemed completed five (5) days after the same shall have been so mailed, (ii) consented and submitted to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agreed that such service of process made by mail shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding.

To the extent that the Company or any of its properties, assets or revenues may have or may hereafter become entitled to, or have attributed to it, any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding, from the giving of any relief in any respect thereof, from setoff or counterclaim, from the jurisdiction of any court, from service of process, from attachment upon or prior to judgment, from attachment in aid of execution or judgment, or from execution of judgment or other legal process or proceeding for the giving of any relief or for the enforcement of any judgment, in any jurisdiction in which proceedings may at any time be commenced, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with the Shares or Deposited Securities, the American Depositary Shares, the Receipts or the Deposit Agreement, the Company, to the fullest extent permitted by law, hereby irrevocably and unconditionally waives, and agrees not to plead or claim, any such immunity and consents to such relief and enforcement.

24. *Registration Of Shares; Russian Share Registrar; Share Register*

- (a) The Company has agreed in the Deposit Agreement that it shall, at any time and from time to time:
 - (i) take any and all action as may be necessary to assure the accuracy and completeness of all information set forth in the Share Register maintained by the Russian Share Registrar in respect of the Shares or Deposited Securities;
 - (ii) provide or cause the Russian Share Registrar to provide to the Depositary, the Custodian or their respective agents unrestricted access to the Share Register in accordance with Russian law, in such manner and upon such terms and conditions as

the Depositary may, in its sole discretion, deem appropriate, to permit the Depositary, the Custodian or their respective agents to regularly (and in any event not less than monthly) confirm the number of Deposited Securities registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of the Deposit Agreement and, in connection therewith, to provide the Depositary, the Custodian or their respective agents, upon request, with a duplicative extract from the Share Register duly certified by the Russian Share Registrar (or some other evidence of verification which the Depositary, in its sole discretion, deems sufficient);

- (iii) use its reasonable efforts to cause the Russian Share Registrar promptly to effect the re-registration of ownership of Deposited Securities in the Share Register in connection with any deposit or withdrawal of Shares or Deposited Securities under this Deposit Agreement;
 - (iv) permit and use its reasonable efforts to cause the Russian Share Registrar to permit the Depositary or the Custodian to register any Shares or other Deposited Securities held hereunder in the name of the Depositary, the Custodian or their respective nominees (which may, but need not be, a non-resident of the Russian Federation); and
 - (v) use its reasonable efforts to cause the Russian Share Registrar promptly to notify the Depositary in writing at any time that the Russian Share Registrar (A) eliminates the name of a shareholder of the Company from the Share Register or otherwise alters a shareholder's interest in the Company's shares and such shareholder alleges to the Company or the Russian Share Registrar or publicly that such elimination or alteration is unlawful; (B) no longer will be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of this Deposit Agreement relating to it (including, without limitation, Section 5.13 thereof); (C) refuses to re-register shares of the Company in the name of a particular purchaser and such purchaser (or its respective seller) alleges that such refusal is unlawful; (D) holds shares of the Company for its own account; or (E) has materially breached the provisions of this Deposit Agreement relating to it (including, without limitation, Section 5.13 thereof) and has failed to cure such breach within a reasonable time.
- (b) The Depositary has agreed in the Deposit Agreement for the benefit of Owners and Holders that the Depositary or the Custodian shall regularly (and in any event not less than monthly) confirm the number of Deposited Securities registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of this Deposit Agreement. The Company and the Depositary have agreed in the Deposit Agreement that, for purposes of the rights and obligations under the Deposit Agreement and this Receipt of the parties thereto and hereto, the records of the Depositary and the Custodian shall be controlling for all purposes with respect to the number of Shares or other Deposited Securities which should be registered in the name of the Depositary, the Custodian or their respective nominees, as applicable, pursuant to the terms of this Deposit Agreement. The Depositary agrees that it will instruct the Custodian to maintain custody of all duplicative share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents pursuant to Section 5.13(b). In the event of any material discrepancy between the records of the Depositary or the Custodian and the Share Register, then, if an officer of the ADR Department of the Depositary has actual knowledge of such discrepancy, the Depositary shall promptly notify the Company. In the event of any discrepancy between the records of the Depositary or the Custodian and the Share Register, the Company agrees that (whether or not it has received any notification from the Depositary) it will (i) use its best efforts to cause the Russian Share Registrar to reconcile its records to the records of the Depositary or the Custodian and to make such corrections or revisions in the Share Register as may be necessary in connection therewith, and (ii) to the extent the Company is unable to so reconcile such records, promptly instruct the Depositary to notify the Owners of the existence of such discrepancy. Upon receipt of such instruction, the Depositary shall promptly give such notification to the Owners pursuant to Section 4.09 of the Deposit Agreement (it being understood that the Depositary may at any time give such notification

to the Owners, whether or not it has received instructions from the Company), and the Depositary shall promptly cease issuing Receipts pursuant to Section 2.02 of the Deposit Agreement until such time as, in the opinion of the Depositary, such records have been appropriately reconciled.

TAXATION

The following summary of material Russian and United Kingdom tax consequences of ownership of the DRs is based upon laws, regulations, decrees, rulings, income tax treaties, administrative practice and judicial decisions in effect at the date of this Prospectus. However, legislative, judicial or administrative changes or interpretations may be forthcoming that could, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the DRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a DR holder. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of DRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY. INVESTORS IN DRs ARE URGED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO INVESTING AS TO THE PARTICULAR RUSSIAN FEDERAL TAX AND UNITED KINGDOM TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE DRs OR THE SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF A DOUBLE TAX TREATY BETWEEN RUSSIA AND THEIR COUNTRY OF RESIDENCE, IN LIGHT OF THEIR PARTICULAR FACTS AND CIRCUMSTANCES, AS WELL AS THE APPLICABILITY AND EFFECT OF STATE, PROVINCIAL AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Certain Russian Federal Tax Considerations

The following is a general summary of certain Russian federal tax considerations relating to the purchase, ownership and disposition of the DRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect on the date of this Prospectus. This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does this summary seek to address the availability of a double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming relief under any applicable double tax treaty. Prospective investors should consult their own advisers regarding tax considerations relating to an investment in the DRs. No representations with respect to Russian tax considerations relating to any particular holder are made hereby.

For the purpose of this summary, a “Non-Resident Holder” means:

- an individual DR holder not considered Russian tax resident under Russian personal income tax provisions in effect at the time he or she has earned the income, or “Non-Resident Holder Individual”. Under the current law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12 month period. An individual’s presence in Russia is not considered to be interrupted if the individual departs from Russia for short periods (less than 6 months) for the purpose of medical treatment and education. Although current legislation specifies that in order to qualify as a Russian tax resident an individual must be present in Russia for at least 183 days in a period consisting of 12 consecutive months, the question how the 12 month rule should be applied in practice is debatable and the answer is not entirely clear. The Ministry of Finance has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year; or
- a legal entity or organisation in each case not incorporated or otherwise organised under Russian Law, which purchases, holds and disposes DRs other than through its permanent establishment in Russia, or “Non-Resident Holder Legal Entity”.

For the purposes of this summary, a “Russian Resident Holder” means any DR holder (including any individual and any legal entity) not qualifying as a non-resident holder.

The residency rules may be affected by an applicable double tax treaty. It is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

For the purposes of this summary, a “Tax Agent” means a legal entity organised under Russian law or a legal entity or organisation, in either case organised under a foreign law and paying out

income attributable to its permanent establishment or, arguably, any other registered presence in the Russian Federation, which pays out dividend or capital gains income on DRs to legal entities that are Non-Resident Holders or to individuals that are DR holders.

The Russian tax rules applicable to securities, and in particular to the tax treatment of a Non-Resident Holder which holds Russian securities, are characterised by significant uncertainties and by an absence of clear interpretative guidance. Russian tax law and procedures are not well developed and rules are sometimes interpreted differently by different tax inspectors. In addition, the substantive provisions of Russian tax law may be subject to a more rapid and unpredictable change than in a jurisdiction with more developed capital markets.

Taxation of Dividends

In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and because of the fact that under Russian law the Depositary (and not holders of the DRs) is the legal owner of the Shares, there are uncertainties in relation to taxation of dividends payable to holders of the DRs.

There were several interpretations of the tax provisions from the Ministry of Finance addressing the beneficial ownership concept in Russia for double tax treaty purposes. These interpretations suggest that the Ministry of Finance will look at the beneficial owner of a DR instead of the nominal owner (such as a depositary) in determining whether the DR's holder may benefit from the terms of a double tax treaty. However, these interpretations are not binding under Russian tax law and are subject to uncertainty and unpredictable positions of tax inspectors. As well there is no clearly established practical procedure for payers of income to withhold tax based on the tax residency of the beneficial owner.

Due to the above uncertainty in the beneficial ownership concept in Russia and because of the fact that the Depositary (and not the holder of the DRs) is the legal holder of the shares under Russian law, it is possible that the treaty relief may be unavailable to Non-Resident Holders of DRs. In addition, the Russian tax authorities may disallow application of a relief under the double tax treaty between the Russian Federation and the Depositary's country of residence. Therefore, RusHydro may be unable to apply reduced rates provided by the relevant double tax treaty and will be obliged to withhold income tax at a maximum rate of 15% from dividend payments made to the Depositary. See “–Tax Treaty Procedures” below.

Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all DR holders and submit such information to RusHydro and, in addition, RusHydro may be unaware of the exact amount of income payable to each particular holder.

The remainder of this sub-section describes taxation of the dividend income received by DR holders if they would be treated by RusHydro as beneficial owners of the dividends according to the foregoing clarifications of the Ministry of Finance.

Russian Resident Holders

Dividends paid to a Russian Resident Holder of DRs that is a Russian legal entity or who is an individual will be subject to Russian withholding tax at a rate of 9%. In certain cases 0% withholding tax rate may apply to dividends received by legal entities that are Russian Resident Holders.

The Tax Code does not clearly state which rate of withholding tax should apply to dividends payable to a Russian Resident Holder of DRs that is a permanent establishment of a foreign legal entity (or organisation). According to the official recommendations issued by the Russian tax authorities, withholding tax at a rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organisation) provided that there is a double tax treaty between Russia and the country of tax residency of the respective foreign legal entity (or organisation) and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as the Tax Code does not specifically provide for the application of the reduced tax rate, no assurance can be given that the application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by Russian tax authorities.

Non-Resident Holders

Dividends paid to a Non-Resident Holder of DRs will be subject to Russian withholding income tax at a 15% rate which will be withheld by RusHydro acting as a Tax Agent.

Technically, withholding income tax on dividends may be reduced under provisions of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holder. For example, the Convention Between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the “U.K. – Russia Tax Treaty”) provides for a 10% withholding rate on dividends paid to U.K. holders that are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

The procedure of obtaining a tax relief under a double tax treaty is described in section “– Tax Treaty Procedures”. However, due to the existing uncertainty in treatment of DR holders described in the beginning of this sub-section, it is possible that the tax relief under a relevant double tax treaty may not be granted to Non-Resident Holders on dividends received on DRs.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities

Capital gains arising from the sale, exchange or other disposition of DRs by a Russian Resident Holder that is a legal entity will be taxed at the regular Russian tax rate of 20%. The tax should be declared and paid directly by the holder. Russian tax legislation contains a requirement that profits arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits from operations with securities that are not quoted on a stock exchange and from operating profits. Therefore, Russian Resident Holders that are legal entities may be able to apply losses arising in respect of DRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer’s license.

Individuals

Capital gains arising from the sale, exchange or other disposition of DRs by Russian Resident Holders that are individuals are subject to personal income tax at a rate of 13%.

The tax base in respect of a sale of the securities by an individual is calculated as the sale proceeds less documentary confirmed expenses related to the purchase of such securities (including the cost of such securities and expenses associated with the purchase, holding and sale of such securities).

The income tax can only be withheld at the source of payment if the sale was made by a Russian Resident Holder that is an individual through a professional securities market participant (for example, a Russian broker, asset manager, or management company, which performs asset management of unit investment fund property). Otherwise, no withholding will be made and the individual should remit the respective tax to the Russian tax authorities.

In any case, the capital gains should be declared on the individual’s tax return (which includes filing of support documentation for the deducted expenses) and filed with the Russian tax authorities by 30 April of the year following the reporting period. If the income was subject to withholding and the tax was properly withheld, the tax payable reflected in the tax return will equal zero.

As Russian legislation related to the taxation of income derived by Russian Resident Holders (both individual and, legal entities or organisations) from the sale, exchange or other disposition of DRs is not entirely clear, RusHydro urges Russian Resident Holders to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of DRs.

Non-Resident Holders

Legal Entities and Organisations

Under Russian tax legislation, gains arising from sale, exchange or other disposition of DRs that are circulated (i.e., listed and traded) on a foreign stock exchange by Non-Resident Holder Legal Entities fall outside the scope of Russian taxes provided that such transaction was made on a foreign stock exchange. Therefore, as long as the DRs remain listed on the London Stock Exchange, gains arising from sale, exchange or other disposition of the DRs on the London Stock Exchange by Non-Resident Holder Legal Entities should not be subject to taxation in Russia and, hence, to Russian withholding income tax.

The remainder of this sub-section applies only to (i) any sale, exchange or other disposition occurred outside foreign stock exchanges and/or (ii) DRs that are not circulated (i.e., listed and traded) on foreign stock exchanges.

Capital gains arising from sale, exchange or other disposition of DRs by Non-Resident Holder Legal Entities should not be subject to tax in Russia if RusHydro's immovable property located in Russia represents 50% or less of its assets. Because determination of whether the immovable property located in Russia constitutes more than 50% of the assets of RusHydro is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia currently, or will in future, constitute not more than 50% of RusHydro's assets.

If more than 50% of the assets of RusHydro consist of immovable property located in Russia, a Non-Resident Holder Legal Entity of the DRs will be subject to a 20% withholding tax rate on the gross proceeds from the sale of the DRs less the cost of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the DRs. In absence of documents confirming acquisition costs, 20% tax would be charged on the gross revenue.

There is a risk that the Tax Agents that are obligated to withhold tax on capital gains may not have sufficient information regarding RusHydro's assets to conclude what percentage of the assets consists of immovable property and could therefore conservatively seek to withhold tax from the income paid to the Non-Resident Holder Legal Entities selling DRs. In such case, it is not clear whether Non-Resident Holder Legal Entities can refund the excessively withheld tax due to the absence of the respective mechanism in the Russian tax legislation.

Where DRs are sold by a Non-Resident Holder Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia (or, arguably, with any registered presence in Russia) even if the resulting capital gain is considered a taxable Russian source income, there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Some tax treaties entered into by the Russian Federation provide for the elimination of taxation of capital gains in Russia for Non-Resident Holders qualifying for the relevant treaty benefits even if the greater part of the assets is represented by immovable property. However, under the U.K.-Russia Tax Treaty, capital gains from the sale by U.K. resident holders of shares would still be taxed in Russia in circumstances where the value of the shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. It may be also noted that due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the DRs, application of an appropriate double tax treaty could be challenged with respect to DRs. Russian tax legislation does not provide for clear guidance regarding availability of double tax treaty relief for DRs, therefore, depending on the wording of each particular double tax treaty, it may be necessary to analyze the possibility to apply double tax treaty relief.

The procedure of obtaining a tax relief under a double tax treaty is described in section “–Tax Treaty Procedures”.

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of DRs by Non-Resident Holder Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. In the absence of a clear definition of what constitutes income from sources within Russia in case of the sale of DRs, there is a certain risk that income from the disposal of DRs may be considered as received from Russian source if the transaction is viewed as conducted in Russia. If the income is considered received from a non-Russian source, it is not subject to taxation in Russia.

Income from the sale, exchange or other disposition of DRs by a Non-Resident Holder Individual, if considered Russian source income, should be subject to tax at a rate of 30% (unless a treaty relief is available) on the difference between the sale price and expenses incidental to acquisition, storage and sale of DRs. However, the income tax can only be withheld at the source of payment if the sale was made by a Non-Resident Holder Individual through a professional securities market participant (for example, a Russian broker, asset manager, or management company, which performs asset management of unit investment fund property). Otherwise, no withholding will be made and the Non-Resident Holder Individual will have an obligation to remit the respective tax to

the Russian tax authorities. Since capital gains may be calculated in Russian roubles, the taxable base could be affected by changes in the Russian rouble exchange rates.

In any case, the capital gains should be declared on the individual's tax return (which includes filing of support documentation for the deducted expenses) and filed with the Russian tax authorities by 30 April of the year following the reporting period. If the income was subject to withholding and the tax was properly withheld, the tax payable reflected in the tax return will equal zero.

It should be noted that Russian tax legislation does not provide for a clear guidance regarding taxation of DRs. In case disposal of DRs is treated by the Russian tax authorities as disposal of property other than shares, the deductibility of acquisition costs may be challenged as such a deduction is not provided for Non-Resident Individuals.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for Non-Resident Holders qualifying for the relevant treaty benefits even if the greater part of the assets is represented by immovable property. However, under the U.K.-Russia Tax Treaty, capital gains from the sale by U.K. resident holders of shares in case the value of the shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange would still be taxed in Russia. It may be also noted that due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the DRs, application of an appropriate double tax treaty could be challenged with respect to DRs. Russian tax legislation does not provide for clear guidance regarding availability of double tax treaty relief for DRs, therefore, depending on the wording of each particular double tax treaty, it may be necessary to analyze the possibility to apply double tax treaty relief.

The procedure of obtaining a tax relief under a double tax treaty is described in section "–Tax Treaty Procedures".

Tax Treaty Procedures

In order to take advantage of a double tax treaty, it is necessary to provide the Tax Agent with confirmation of tax residency in a state with which Russia has concluded the relevant treaty. The confirmation of the Non-Resident Holder's residency may be issued in the form of a letter from the competent authority of the Non-Resident Holder's country, containing the tax identification number of the resident (if any), the period covered by the letter and the date of issuance. The confirmation of tax residency needs to be renewed and provided to the Tax Agent before the first payment in each tax period (calendar year). The letter should be duly signed and stamped. The aforementioned confirmation should be duly apostilled or legalised and translated into Russian.

Legal Entities and Organisations

If tax treaty clearance is not obtained and tax is withheld by the Tax Agent on capital gains, dividend payments or other amounts, a Non-Resident Holder may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted, within 3 years from the end of the tax period in which the tax was withheld for Non-Resident Holders Legal Entities. The package should include the appropriate form (1012 DT (2002) for dividend income and 1011DT (2002) for other income), confirmations of residence of the foreign holder, a copy of the agreement or other documents substantiating the payment of income and documents confirming the transfer of tax to the budget. Under the provisions of the Tax Code, the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is a significant uncertainty regarding the availability and timing of such refunds.

Individuals

The provisions of the Tax Code in respect of granting double tax treaty reliefs are drafted in such a way as to effectively limit the ability of obtaining a treaty relief by way of non-withholding or withholding tax at a reduced rate, therefore, individuals may have to apply for refund of taxes withheld.

In particular, to obtain treaty benefits a Non-Resident Holder Individual in addition to confirmation of tax residency described above must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed (where the treaty exemption is conditional on the income concerned being subject to taxation in other jurisdiction). Because of uncertainties regarding the form and procedures for providing such

documentary proof, individuals in practice may be unable to obtain treaty benefits on receipt of proceeds from a source within Russia.

If tax treaty clearance is not obtained and tax is withheld by the Tax Agent on capital gains, dividend payments or other amounts, a Non-Resident Holder Individual may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted, within one year from the end of the tax period (a calendar year) in which the tax was withheld. Under the provisions of the Tax Code, the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a holder's right to obtain relief under a double tax treaty. Such documentation may not be explicitly required by the Tax Code.

In practice, the above-mentioned Tax Treaty procedures may be more complicated with respect to DRs in comparison to Russian shares, due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the DRs. Russian tax legislation does not provide for clear guidance regarding availability and procedures of application of double tax treaty relief for DRs, therefore, in practice additional difficulties may arise. Therefore, RusHydro cannot assure potential investors that the double tax treaty relief will be available for DR holders due to uncertainties in the Russian tax legislation.

The Russian tax authorities may require Non-Resident Holders to provide a Russian translation of the required documents.

Certain United Kingdom Tax Considerations

The following is a general summary of certain United Kingdom tax considerations relating to the ownership and disposition of the DRs by persons who are resident (and in the case of individuals, ordinarily resident and domiciled) in the UK for tax purposes. This summary is based on current UK law and practice, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary is for general information only and does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under UK law; in particular this summary does not apply to the following:

- investors who are not the absolute beneficial owners of the DRs;
- investors who do not hold the DRs as capital assets;
- special classes of investor such as dealers and tax-exempt investors;
- investors that are insurance companies, collective investment schemes or persons connected with RusHydro; or
- investors that control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, a 10% or greater interest in RusHydro.

Further, this summary assumes that (i) there will be no register in the UK in respect of the DRs or the Shares; (ii) the DRs will not be issued by a depositary or held by a custodian incorporated in the UK; (iii) the Shares or DRs will not be paired with shares issued by a company incorporated in the UK; and (iv) if any dividends are distributed to any DR holders, the profits in respect of which RusHydro will make such dividend distributions (if any) do not reflect the results of any transactions or of one or more of a series of transactions which achieve, or have the purpose or one of the main purposes of achieving, a reduction in UK tax.

INVESTORS IN DRs ARE URGED TO CONSULT THEIR OWN TAX ADVISERS PRIOR TO INVESTING WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES AND THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE OWNERSHIP AND DISPOSITION OF THE DRs.

Taxation of dividends

Dividend payments in respect of the DRs may be made without withholding or deduction for or on account of UK income tax. As discussed in the paragraphs headed “– Certain Russian Federal Tax Considerations – Taxation of Dividends – Non-Resident Holders”, such dividends will generally be subject to Russian withholding taxes.

Corporate DR Holders

Under the current law, dividends received by investors which are companies that are subject to UK corporation tax (by reason of being resident in the UK for tax purposes or by carrying on a trade through a permanent establishment in the UK to which the DRs are attributable) will be subject to UK corporation tax on the gross amount of any dividend paid on the DRs at the usual rate of corporation tax (28% for the tax year 2009/2010 for companies paying the full rate) before the deduction of any Russian withholding taxes.

However, DR holders within the charge to UK corporation tax should be aware that the UK Government has recently published Finance Bill 2009 which incorporates draft legislation introducing an exemption from corporation tax on dividends received from foreign companies. Subject to enactment of the proposed legislation in its current form, such exemption should generally be available to such DR holders. These new rules, if enacted, will apply to distributions made by RusHydro on or after 1 July 2009.

Individual DR Holders

Dividends received by an individual DR holder who is resident, ordinarily resident and domiciled in the UK for tax purposes, will generally be subject to UK income tax on the gross amount of any dividend paid before the deduction of any Russian withholding taxes. Higher rate tax payers are currently subject to UK tax on the gross amount of such dividends at 32.5%, and other individual taxpayers at the rate of 10%, in either case subject to any applicable relief or exemption. Under the current law, if, as intended, RusHydro is not resident in the UK for tax purposes, individuals who receive dividends from RusHydro will be entitled to receive a tax credit equal to one ninth of the amount or value of the dividend received (grossed up for foreign taxes, if any) provided they hold or are beneficially entitled to less than 10% of the issued share capital of RusHydro. However, DR holders who are individuals should note that the UK Government has recently published draft legislation in the Finance Bill 2009 which extends eligibility for the tax credit to UK resident individuals who hold 10% or more of the share capital of a company in most circumstances. Subject to enactment of the proposed legislation in its current form, from 22 April 2009, a UK resident individual in receipt of dividends from RusHydro would generally be entitled to a tax credit equal to one ninth of the dividend received (grossed up for foreign taxes, if any) irrespective of the percentage of the individual's holding in RusHydro.

In the case of both corporate and individual DR holders, credit may be given for Russian tax withheld, subject to the UK tax rules regarding calculation and availability of such credit, including taking all reasonable steps to minimise the amount of Russian tax on such dividends. See the paragraphs headed “– Certain Russian Federal Tax Considerations – Tax Treaty Procedures” for information on the operation of any treaty relief that may be available to investors in respect of any such Russian tax.

Provision of information

It should be noted that persons in the UK paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the DRs may constitute “foreign dividends” for this purpose.

Taxation of disposals

The disposal of DRs should be treated as a disposal of an interest in the underlying Shares for UK tax purposes. This analysis is based on the assumption that the investor should be treated as holding an interest in the Shares. Any future disposal of a DR should therefore be subject to UK legislation on corporation tax on chargeable gains for a corporate holder and capital gains tax for an individual holder.

Corporate DR Holders

The disposal of the DRs by investors which are companies that are subject to UK corporation tax (by reason of being resident in the UK or carrying on a trade through a permanent establishment in the UK to which the DRs are attributable), may, depending on the investor's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss. Such an investor should be entitled to an indexation allowance which applies to reduce capital gains to the

extent that such gains arise due to inflation. Indexation allowance may reduce a chargeable gain but will not create an allowable loss.

Individual DR Holders

As regards an individual investor who is resident, ordinarily resident and domiciled in the UK for tax purposes, the principal factors that will determine the capital gains tax position on a disposal of DRs are the extent to which the investor realises any other capital gains in the tax year in which the disposal is made, the extent to which the investor has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “annual exemption”). The annual exemption for individuals for the 2009/2010 tax year is £10,100 and, under current legislation, this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index. Investors should be aware that the UK Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level. If tax is payable on disposal of DRs, the applicable rate will be 18%.

An individual investor who ceases to be resident or ordinarily resident in the UK for a period of less than 5 years and who disposes of his DRs during that period may also be liable on returning to the UK for UK taxation on capital gains despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

As discussed under the heading “– Certain Russian Federal Tax Considerations – Taxation of Capital Gains – Non-Resident Holders”, certain capital gains may be subject to Russian withholding taxes. Credit against UK tax may be given for Russian tax withheld, subject to the UK tax rules regarding calculation and availability of such credit, including taking all reasonable steps to minimise the amount of Russian tax on such capital gains. See “– Certain Russian Federal Tax Considerations – Tax treaty procedures”.

Stamp duty and stamp duty reserve tax

No liability to UK stamp duty or stamp duty reserve tax will arise on the transfer of, or agreement to transfer DRs in future, provided that (i) any instrument of transfer is executed and retained outside the UK and does not relate to any property situate, or to any matter or thing done or to be done, in the UK (which may include the involvement of UK bank accounts in payment mechanics); and (ii) no other action is taken in the UK by any seller or buyer of the DRs.

Inheritance tax

DRs beneficially owned by an individual may (subject to certain exemptions and reliefs) be subject to UK inheritance tax on the death of the individual or, in certain circumstances, if the DRs are the subject of a gift or other transfer of value by the individual.

Holders of DRs should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold DRs through trust arrangements.

Other UK tax considerations

Persons who are not resident or ordinarily resident (or, if resident or ordinarily resident, are not domiciled) in the UK for tax purposes, including those individuals and companies who trade in the UK through a branch, agency or permanent establishment, and who subscribe for DRs in the course of that trade, are recommended to seek the advice of professional advisers in relation to their taxation obligations.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary mechanisms have been established among Euroclear, Clearstream and DTC to facilitate cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream are represented by the Regulation S Master GDR registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee of The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC are represented by the Rule 144A Master GDR registered in the name of Cede & Co., as nominee for DTC. As necessary, the Depositary adjusts the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs are held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC are reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as

the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, are responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary is responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream and the nominee for DTC. The Depositary is responsible for ensuring that payments received by it from RusHydro for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary is also responsible for ensuring that payments received by it from RusHydro for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, NY 10274, United States of America. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

RusHydro does not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the GDR Deposit Agreement.

Global Clearance and Settlement Procedures

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see “Terms and Conditions of the Global Depositary Receipts” and “Summary of Provisions Relating to the GDRs While in Master Form”.

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream are conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and are settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC occur in the ordinary way in accordance with DTC rules and are settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs held through DTC and (ii) increase the amount of book-entry interests in the GDRs held through Euroclear and Clearstream.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least two business days prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease

the amount of the book-entry interests in the GDRs held through Euroclear and Clearstream and (ii) increase the amount of the book-entry interests in the GDRs held through DTC.

Clearing and settlement of the ADRs

If the ADR Programme is established, the ADRs are expected to be accepted in the book-entry settlement system of DTC. ADRs that are not traded through DTC's book-entry settlement system are administered by the Depositary, which issues definitive certificates to the relevant holders of such ADRs.

Holders of book-entry interests in the ADRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the ADRs from the Depositary through DTC and DTC participants.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the ADRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the ADRs, may be limited.

Trading between DTC participants

If the ADR Programme is established, secondary market sales of book-entry interests in the ADRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs and the ADRs among participants of Euroclear, Clearstream and DTC, as the case may be, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of RusHydro, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary was constituted in 1784 in the State of New York and operates under the laws of the State of New York. The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286, United States of America and at The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

INDEPENDENT AUDITORS

The combined and consolidated financial statements of the Group as at and for the years ended 31 December 2008, 2007 and 2006, included in this Prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, an independent auditor, of Kosmodamianskaya nab. 52, Bldg. 5, Moscow, 115054, Russian Federation. ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors (Auditorskaya Palata Rossii).

LISTING AND GENERAL INFORMATION

1. It is expected that the GDRs will be admitted to the Official List on or about 6 July 2009. Application has been made for the GDRs to be traded on the Regulated Market of the London Stock Exchange. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. RusHydro was incorporated in the Russian Federation on 26 December 2004, as an open joint stock company for an unlimited duration, and it operates under the laws of the Russian Federation. RusHydro has its registered office at: 51 Respubliki Street, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation, with state registration number 1042401810494. RusHydro's main administrative office is located at 51 Arkhitekto Vlasova Street, Moscow, 117393, Russian Federation, and its telephone number is +7 (495) 225 3232.

3. The following table shows the names and the nature of business of RusHydro's significant subsidiaries.

Name	Country of incorporation	Principal activity	Interest in share capital (%)
OJSC Chuvashskaya Energy Retail Company.....	Russian Federation	Electricity retail	100
OJSC Ryazanskaya Energy Retail Company.....	Russian Federation	Electricity retail	90.5
OJSC KrasnoyarskEnergoSbyt	Russian Federation	Electricity retail	51.6
OJSC RusHydro Energy Retail Company.....	Russian Federation	Electricity retail	100
OJSC REMIK	Russian Federation	Repair company	100
OJSC Turboremont-VKK	Russian Federation	Repair company	100
OJSC Gidroremont-VKK	Russian Federation	Repair company	100
OJSC Elektroremont-VKK	Russian Federation	Repair company	100
OJSC Sayano-Shushensky Gidroremont	Russian Federation	Repair company	100
OJSC Prometey	Russian Federation	Electricity generation	100
OJSC Karachaevo-Cherkessian Hydrogeneration Company	Russian Federation	Electricity generation	100
OJSC Malaya Mezenskaya TPP	Russian Federation	Electricity generation	100
OJSC Geotherm	Russian Federation	Electricity generation	71.6
OJSC Kolymaenergo	Russian Federation	Electricity generation	64.0
OJSC OP Verkhne-Mutnovskaya GeoPP	Russian Federation	Electricity generation	48.0
OJSC B. Ye. Vedeneyev VNIIG	Russian Federation	Research institute	100
OJSC NIIES	Russian Federation	Research institute	100
OJSC ESKO UES	Russian Federation	Research institute	100
OJSC Lengidroproekt	Russian Federation	Research institute	100
OJSC Moscow Region Institute Gidroproekt	Russian Federation	Research institute	62.6
OJSC New Binary Power Unit	Russian Federation	Construction	100
OJSC Sulakskiy HydroCascade	Russian Federation	Construction	100
OJSC ChirkeyGESstroy	Russian Federation	Construction	75.0 -1 share
OJSC South-Yakutia Hydro Power Complex	Russian Federation	Construction	100
OJSC Zaramagskiye HPPs	Russian Federation	Construction	95.5
CJSC GidroInzhiniring Sibir (formerly CJSC Boguchanskaya HPP)	Russian Federation	Construction	100
OJSC Nizhne-Zeyskaya HPP	Russian Federation	Construction	100
OJSC Nizhne-Bureyskaya HPP.....	Russian Federation	Construction	100
OJSC Zagorskaya PSHP-2.....	Russian Federation	Construction	100
OJSC Ust-SrednekanGESstroy	Russian Federation	Construction	64.3
OJSC Ust-Srednekanskaya HPP	Russian Federation	Construction	51.9
OJSC Gidroinvest.....	Russian Federation	Investment in securities	100
Sayano-Shushensky auto transport center	Russian Federation	Auto transport	100

Name	Country of incorporation	Principal activity	Interest in share capital (%)
LLC SpetsEnergoServis.....	Russian Federation	Construction	99.9
CJSC Rummyantsevo Technopark	Russian Federation	Construction	100
LLC Energy Index HydroOGK	Russian Federation	Investment in securities	100
OJSC HydroOGK MC	Russian Federation	Management company	100
CJSC Boguchansky Aluminium Plant Construction Customer	Russian Federation	BEMA project	51.0
CJSC Boguchanskaya HPP Construction Organiser	Russian Federation	BEMA project	51.0
Private company limited by shares “HYDROOGK POWER COMPANY LIMITED”	Republic of Cyprus	BEMA project	100
Private company limited by shares “HYDROOGK ALUMINIUM COMPANY LIMITED”	Republic of Cyprus	BEMA project	100

4. If definitive certificates are issued in exchange for the DRs, RusHydro will appoint an agent in the United Kingdom.

5. For the Rule 144A GDRs, the ISIN is US44880R1032 and the CUSIP is 44880R103. For the Regulation S GDRs, the ISIN is US44880R2022 and the CUSIP is 44880R202. It is expected that the ADRs, if issued, will retain the ISIN and CUSIP number that are currently assigned to the Regulation S GDRs.

6. There has been no significant change in the Group's financial or trading position since 31 December 2008 (the date of the latest audited financial statements).

7. The GDR Deposit Agreement, pursuant to which the GDRs were issued, and in which rights relating to the GDRs are set out, is governed by English law. The ADR Deposit Agreement, in which rights relating to the ADRs are set out, is governed by New York law. The DRs are not denominated in any currency and have no nominal or par value.

8. This Prospectus will be made available to the public by RusHydro at the offices in London of Debevoise & Plimpton LLP, Tower 42, Old Broad Street, London EC2N 1HQ and at the registered office of RusHydro. In addition, the following documents will be on display at those offices of Debevoise & Plimpton LLP until the date of admission to the Official List and to trading on the Regulated Market:

- a copy of the Articles of Association of RusHydro (English translation);
- a copy of the audited combined and consolidated financial statements of the Group for the years ended 31 December 2008, 2007 and 2006, together with the auditors' report relating thereto; and
- a copy of the GDR Deposit Agreement; and
- a copy of the ADR Deposit Agreement.

GLOSSARY

The following words and expressions shall, unless the context requires otherwise, have the following meanings when used in this Prospectus:

Bankruptcy Law	Federal Law “On Insolvency (Bankruptcy)” No. 127-FZ dated 26 October 2002, as amended
BEMA project	a 50/50 joint venture between RusHydro and Rusal relating to the completion and operation in the Krasnoyarsk Region of a hydro power plant, Boguchanskaya HPP, with an installed capacity of 3,000 MW, and an aluminium smelter, with a capacity to produce 597,000 tonnes of aluminium per year
CBR	Central Bank of Russia
Commercial Operator	the operator of the wholesale electricity market
Competition Law	Federal Law “On the Protection of Competition” No. 135-FZ dated 26 July 2006
Civil Code	Civil Code of the Russian Federation
Currency Law	Federal Law No. 173-FZ “On Currency Regulation and Currency Control” dated 10 December 2003
Electricity Industry Law	Federal Law “On the Electricity Industry” No. 35-FZ dated 26 March 2003
Environmental Protection Law	Federal Law “On Environmental Protection” No. 7-FZ dated 10 January 2002, as amended
first pricing zone	includes the Central IES, North-West IES, Middle Volga IES, South IES and Urals IES
GeoPP	geothermal power plant
Group	RusHydro and its subsidiaries
HPP	hydro power plant
IES	Integrated energy systems, which are a geographically separate Russian energy systems
Joint Stock Companies Law	Federal Law “On Joint Stock Companies” No. 208-FZ dated 26 December 1995, as amended
kWh	kilowatt hour
Labour Code	Labour Code of the Russian Federation
Land Code	Land Code of the Russian Federation
Licensing Regulations	the Licensing Law and the regulations introduced thereunder
MED	The Ministry for Economic Development of the Russian Federation
MICEX	Moscow Interbank Currency Exchange
Minenergo	Ministry of Energy of the Russian Federation
MW	mega watts
MWh	mega watt hour
New Retail Market Rules	the new retail market rules introduced by the Government Resolution No. 530 “On Approval of the Rules for the Operation of the Retail Electricity (Capacity) Markets during the Transitional Period” dated 31 August 2006
New Wholesale Market Rules	the rules for the wholesale electricity market of the Russian Federation introduced by Resolution No. 529 and amended by Resolution No. 205
OGK	so-called “wholesale generation companies” created during the restructuring of RAO UESR

PSHPP	pumped storage hydro power plant
RAO UESR	Open Joint-Stock Company Unified Energy System of Russia, formerly the largest state power holding which ceased to exist on 1 July 2008
Register of Rights	Unified State Register of Rights to Immovable Property and Transactions Therewith
Regulated Contract	a regulated contract under which electricity output and capacity are sold at fixed tariffs
Regulated Market	a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC
Resolution No. 24	Government Resolution No. 24 “On Approval of Standards for Disclosure of Information by the Participants in the Electricity Wholesale and Retail Market” dated 21 January 2004
Resolution No. 205	Government Resolution No. 205 “On the Introduction of Amendments to Several Acts of the Government of the Russian Federation Regarding the Determination of the Volumes of Electricity Sales at Free (Unregulated) Prices” dated 7 April 2007
Resolution No. 526	Government Resolution No. 526 “On Restructuring of the Electric Power Industry of the Russian Federation” dated 11 July 2001
Resolution No. 529	Government Resolution No. 529 “On Improving the Operation of the Wholesale Electricity (Electricity capacity) Market” dated 31 August 2006
Rosstat	Federal Service for State Statistics of the Russian Federation
RusHydro	JSC RusHydro
second pricing zone	the Siberian IES
System Operator	OJSC System Operator of the Unified Energy System
tariffs	prices regulated by federal or regional authorities
Tariff Regulation Law	Federal Law “On State Regulation of Tariffs for Electric and Heat Energy in the Russian Federation” No. 41-FZ dated 14 April 1995
Tax Code	the Tax Code of the Russian Federation No. 146-FZ dated 31 July 1998, as amended
TGK	so-called “territorial generation companies” created during the restructuring of RAO UESR
TPP	tidal power plant
Trade Union Law	Federal Law “On Trade Unions, Their Rights and Guaranties of Their Activity” No. 10-FZ dated 12 January 1996, as amended
Transitional Period Law	Federal Law “On Specific Features of Functioning of Electricity Industry during the Transitional Period, and on Introduction of Amendments into Certain Laws of the Russian Federation and on Abolishing Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law “On the Electricity Industry” No. 36-FZ dated 26 March 2003
UKLA	U.K. Listing Authority, a division of the Financial Services Authority
WPP	wind power plant

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Annual combined and consolidated financial statements of the Group as at and for the three years ended 31 December 2008, 2007 and 2006

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**RUSHYDRO GROUP
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
AS AT AND FOR THE THREE YEARS ENDED
31 DECEMBER 2008, 2007 AND 2006**

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 combined and consolidated balance sheets of OJSC "RusHydro" and its subsidiaries (the "Group") as of 31 December 2008, 2007 and 2006 and the related combined and consolidated income statements, combined and consolidated statements of changes in equity and combined and consolidated cash flow statements for the years 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 combined and 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 combined and 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 combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

15 May 2009

Moscow, Russian Federation

RusHydro Group
Combined and Consolidated Balance Sheet
as at 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Note	31 December 2008	31 December 2007	31 December 2006
ASSETS				
Non-current assets				
Property, plant and equipment	7	337,117,452	271,578,940	142,869,195
Investments in associates and jointly controlled entities	8	15,799,183	6,105,985	—
Available-for-sale financial assets.....	9	2,011,215	102,504	20,499
Other non-current assets	10	14,990,718	2,488,141	1,968,660
Total non-current assets		369,918,568	280,275,570	144,858,354
Current assets				
Cash and cash equivalents	11	24,837,862	8,266,748	6,604,333
Accounts receivable and prepayments	12	25,685,109	20,785,306	16,063,708
Inventories.....	13	1,035,211	1,020,329	993,217
Other current assets	14	4,894,349	3,198,408	486,676
Total current assets.....		56,452,531	33,270,791	24,147,934
TOTAL ASSETS.....		426,371,099	313,546,361	169,006,288
EQUITY AND LIABILITIES				
Equity				
Share capital.....	15	245,014,059	156,864,374	140,954,760
Treasury shares	15	(8,172,275)	(5,427,507)	—
Share premium	15	12,005,099	12,005,099	391,080
Merger reserve.....	15	(77,449,212)	(40,249,247)	(39,473,786)
Retained earnings and other reserves		171,238,173	85,858,152	3,061,546
Equity attributable to shareholders of OJSC RusHydro.....		342,635,844	209,050,871	104,933,600
Minority interest		976,352	29,129,055	21,208,867
TOTAL EQUITY		343,612,196	238,179,926	126,142,467
Non-current liabilities				
Deferred income tax liabilities	16	34,819,008	32,561,956	6,408,017
Non-current debt.....	18	20,015,485	20,839,133	16,396,769
Other non-current liabilities	19	2,735,694	2,112,696	2,142,475
Total non-current liabilities		57,570,187	55,513,785	24,947,261
Current liabilities				
Current debt and current portion of non-current debt.....	18	3,376,901	3,178,035	5,186,176
Accounts payable and accruals	20	16,239,906	15,188,505	11,279,237
Current income tax liabilities		362,165	106,391	69,323
Other taxes payable.....	21	5,209,744	1,379,719	1,381,824
Total current liabilities.....		25,188,716	19,852,650	17,916,560
TOTAL LIABILITIES		82,758,903	75,366,435	42,863,821
TOTAL EQUITY AND LIABILITIES.....		426,371,099	313,546,361	169,006,288

Member of Management Board



S.A. Yushin

Chief Accountant



O.V. Otto

15 May 2009

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Combined and Consolidated Income Statement
for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Revenue.....	22	107,669,781	80,756,471	53,436,335
Operating expenses	23	(84,658,214)	(70,391,958)	(53,318,240)
Impairment (charge)/reversal related to property, plant and equipment.....	7	(32,552,821)	—	14,971,413
Operating (loss)/profit.....		(9,541,254)	10,364,513	15,089,508
Finance costs, net.....	24	(1,494,816)	(1,824,819)	(816,209)
Impairment of available-for-sale financial assets/investments	9	(6,464,323)	—	—
Share of loss of associates and jointly controlled entities	8	(1,531,348)	(119,309)	—
(Loss)/Profit before income tax		(19,031,741)	8,420,385	14,273,299
Total income tax charge	16	(448,557)	(2,949,364)	(6,649,609)
(Loss)/Profit for the period		(19,480,298)	5,471,021	7,623,690
Attributable to:				
Shareholders of OJSC RusHydro		(19,955,433)	5,663,018	6,034,402
Minority interest		475,135	(191,997)	1,589,288
Earnings per ordinary share for (loss)/ profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	25	(0.0925)	0.0381	0.0487
Weighted average number of shares outstanding – basic and diluted	25	215,648,425	148,502,176	124,027,549

Member of Management Board



S.A. Yushin

Chief Accountant



O.V. Otto

15 May 2009

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Combined and Consolidated Cash Flow Statement
for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING				
ACTIVITIES:				
(Loss)/Profit before income tax		(19,031,741)	8,420,385	14,273,299
Depreciation of property, plant and equipment	7, 23	9,332,702	8,457,485	4,292,271
Loss on disposal of property, plant and equipment	23	303,336	164,417	2,587,178
Interest expense, net		1,494,816	1,824,819	816,209
Gain on disposal of subsidiary to a jointly- controlled entity	2	—	(270,565)	—
Write-off and charge of impairment of accounts receivable		1,087,764	505,311	521,462
Impairment charge/(reversal) related to property, plant and equipment	7	32,552,821	—	(14,971,413)
Impairment of available-for-sale financial assets	9	6,464,323	—	—
Share of loss of associates and jointly controlled entities		1,531,348	119,309	—
Effect of share option plan	6	749,994	268,405	—
Pension expenses		478,481	194,803	736,128
Other		389,630	(452,705)	(403,587)
Operating cash flows before working capital changes and income tax paid		35,353,474	19,231,664	7,851,547
Working capital changes:				
Increase in accounts receivable and prepayments		(9,294,172)	(4,752,848)	(8,522,746)
Decrease/(increase) in other current assets		2,715,784	(516,768)	755,340
Decrease/ (increase) in inventories		77,625	(189,620)	(3,951)
Decrease/(increase) in other non-current assets ..		86,337	(181,963)	631,884
Increase/(decrease) in accounts payable and accruals		3,167,501	8,965,768	(4,182,077)
Increase/(decrease) in other taxes payable		5,760,178	(205,739)	(268,325)
Increase/(decrease) in other non-current liabilities		1,176,309	(1,032,929)	(178,447)
Income tax paid		(11,422,296)	(4,283,309)	(2,298,578)
Net cash generated by (used in) operating activities		27,620,740	17,034,256	(6,215,353)
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Proceeds from sale of property, plants and equipment		34,494	229,230	25,528
Purchase of property, plant and equipment		(25,354,163)	(32,308,097)	(20,834,630)
Purchase of promissory notes and other short- term investments		(7,549,261)	(4,120,047)	(430,190)
Purchase of entities under common control		(1,820,784)	—	—
Purchase of subsidiaries from third parties, net of cash acquired		(1,297,241)	—	—
Loans issued		—	(311,680)	(140,000)
Proceeds from sale of investments		980,274	1,503	—
Proceeds from loan redemption		60,000	174,923	—
Interest received		1,924,069	451,169	—
Net cash used in investing activities		(33,022,612)	(35,882,999)	(21,379,292)

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Combined and Consolidated Cash Flow Statement
for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

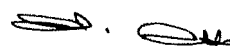
Note	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING			
ACTIVITIES:			
Proceeds from short-term debt	24,671,748	16,285,320	5,407,567
Proceeds from long-term debt	150,000	1,500,000	14,300,000
Repayment of debt	(4,596,127)	(9,899,514)	(7,268,965)
Interest paid	(1,544,163)	(1,660,803)	(902,731)
Dividends paid by the Group to RAO UES of Russia shareholders.....	—	(2,049,054)	(1,004,402)
Dividends paid by the Group to minority interest shareholders.....	(7,758)	(609,442)	(312,748)
Proceeds from share issuance	6,013,971	26,637,507	20,990,000
Purchase of treasury shares	—	(5,427,507)	—
Purchase of the Group's subsidiaries additional share issuance by RAO UES of Russia	—	—	892,427
Advances received from RAO UES of Russia under Investment agreements.....	—	4,344	1,291,358
Repayment of advances to RAO UES of Russia under Investment agreements.....	(625,866)	(3,760,442)	(834,520)
Finance lease payments.....	(2,088,819)	(509,251)	(343,693)
Net cash generated by financing activities.....	21,972,986	20,511,158	32,214,293
Increase in cash and cash equivalents.....	16,571,114	1,662,415	4,619,648
Cash and cash equivalents at the beginning of the period	8,266,748	6,604,333	1,984,685
Cash and cash equivalents at the end of the period	24,837,862	8,266,748	6,604,333

Member of Management Board



S.A. Yushin

Chief Accountant



O.V. Otto

15 May 2009

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Combined and Consolidated Statement of Changes in Equity for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2006	103,951,323	—	—	(21,944,450)	—	(1,111,657)	80,895,216	18,522,241	99,417,457
Profit for the period	—	—	—	—	—	6,034,402	6,034,402	1,589,288	7,623,690
Total recognised income for 2006	—	—	—	—	—	6,034,402	6,034,402	1,589,288	7,623,690
Share issuance (Note 15)	37,003,437	—	391,080	(17,149,516)	—	—	20,245,001	—	20,245,001
Effect of changes in minority interest (Note 15)	—	—	—	—	—	(82,733)	(82,733)	1,526,549	1,443,816
Acquisition of subsidiary (Note 15)	—	—	—	(206,593)	—	—	(206,593)	—	(206,593)
Effect of carve-out accounting (Note 15)	—	—	—	(173,227)	—	—	(173,227)	—	(173,227)
Dividends (Note 15)	—	—	—	—	—	(1,778,466)	(1,778,466)	(429,211)	(2,207,677)
As at 31 December 2006	140,954,760	—	391,080	(39,473,786)	—	3,061,546	104,933,600	21,208,867	126,142,467
As at 1 January 2007	140,954,760	—	391,080	(39,473,786)	—	3,061,546	104,933,600	21,208,867	126,142,467
Revaluation of property, plant and equipment, net of deferred taxes (Note 7)	—	—	—	—	74,190,300	—	74,190,300	13,978,481	88,168,781
Net income recognised directly in equity	—	—	—	—	74,190,300	—	74,190,300	13,978,481	88,168,781
Profit for the period	—	—	—	—	—	5,663,018	5,663,018	(191,997)	5,471,021
Total recognised income for 2007	—	—	—	—	74,190,300	5,663,018	79,853,318	13,786,484	93,639,802
Share issuance (Note 15)	15,909,614	—	11,614,019	(750,260)	—	—	26,773,373	—	26,773,373
Effect of share option plan (Note 6)	—	—	—	—	—	268,405	268,405	—	268,405
Purchase of treasury shares (Note 15)	—	(5,427,507)	—	—	—	—	(5,427,507)	—	(5,427,507)
Disposal of subsidiary to jointly controlled entity (Note 2, Note 15)	—	—	—	—	(218,395)	2,598,803	2,380,408	(2,380,408)	—
Effect of changes in minority interest (Note 15)	—	—	—	(25,201)	—	1,534,528	1,509,327	(3,104,344)	(1,595,017)
Dividends (Note 15)	—	—	—	—	—	(1,240,053)	(1,240,053)	(381,544)	(1,621,597)
As at 31 December 2007	156,864,374	(5,427,507)	12,005,099	(40,249,247)	73,971,905	11,886,247	209,050,871	29,129,055	238,179,926

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Combined and Consolidated Statement of Changes in Equity for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

	Ordinary share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2008	156,864,374	(5,427,507)	12,005,099	(40,249,247)	73,971,905	11,886,247	209,050,871	29,129,055	238,179,926
Change in tax rate (Note 7)	—	—	—	—	4,622,059	—	4,622,059	—	4,622,059
Revaluation of property, plant and equipment, net of deferred taxes (Note 7)	—	—	—	—	58,846,669	—	58,846,669	265,986	59,112,655
Change in associate's net assets (Note 8)	—	—	—	—	—	237,109	237,109	—	237,109
Net income recognised directly in equity	—	—	—	—	63,468,728	237,109	63,705,837	265,986	63,971,823
Loss for the period	—	—	—	—	—	(19,955,433)	(19,955,433)	475,135	(19,480,298)
Total recognised income for 2008	—	—	—	—	63,468,728	(19,718,324)	43,750,404	741,121	44,491,525
Share issuance (Note 15)	88,149,685	(2,744,768)	—	(33,789,018)	13,857,936	26,075,863	91,549,698	(28,581,425)	62,968,273
Effect of share option plan (Note 6)	—	—	—	—	—	749,994	749,994	—	749,994
Effect of changes in minority interest (Note 15)	—	—	—	—	—	—	—	—	—
Purchase of subsidiaries (Note 15)	—	—	—	—	—	1,150,248	1,150,248	(318,548)	831,700
Dividends (Note 15)	—	—	—	—	—	(204,424)	(3,615,371)	6,949	(3,608,422)
As at 31 December 2008	245,014,059	(8,172,275)	12,005,099	(77,449,212)	151,298,569	19,939,604	342,635,844	976,352	343,612,196

Member of Management Board

S.A. Yushin

Chief Accountant

O.V. Otto

15 May 2009

The accompanying notes are an integral part of these combined and consolidated financial statements.

RusHydro Group
Notes to the Combined and Consolidated Financial Statements
for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

Note 1. The Group and its operations

Open Joint Stock Company RusHydro (OJSC RusHydro – hereinafter referred to as “the Company”) was founded by the sole founder party – the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as “RAO UES of Russia”) 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.

RusHydro Group (hereinafter referred to as “the Group”) was formed for the purpose of implementation of the Russian Federation government policy in the hydropower industry, creating the conditions for effective functioning of wholesale electricity generation market, implementation of a strategy toward attracting of funds and capital raising for the purpose of development of the hydropower industry, development and realisation of scientific and technological policy and implementation of new progressive types of equipment and technology, including exploration of renewable sources of electric energy.

The Group’s primary activity is generation and sale of electricity (capacity), transportation of electricity, exploitation of electricity equipment in accordance with the effective legal requirements, performing an on-time and high-quality repair of the equipment, technical re-equipment and reconstruction, carrying out investment activities.

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

The Group consists of the Company, which has 20 branches across the Russian Federation, its subsidiaries, associates and jointly controlled entities. The Group’s principal subsidiaries are presented in Note 2. The Group’s associates and jointly controlled entities are presented in Note 8.

The ordinary shares of the Company are traded on the Moscow Interbank Currency Exchange and the Russian Commodities and Raw Materials Exchange.

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation (“CBRF”) increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. 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 financial position of the Group.

Relations with the State and current regulation. As at 31 December 2008 the Russian Federation owned 61.32 percent (*) of the voting ordinary shares of the Company (as at 31 December 2007, RAO UES of Russia (itself controlled by the Russian Federation) owned 96.16 percent and the Russian Federation directly owned 1.84 percent, as at 31 December 2006 – 100 percent belonged to

(*) The percentage has been calculated including an additional share emission in favour of the Government of the Russian Federation in the amount of 6,000,000,000 which increased the Government’s share in the Company’s share capital by 0.95 percent. The shares were paid in December 2008 and subsequently registered in March 2009 (Note 31).

RusHydro Group
Notes to the Combined and Consolidated Financial Statements
for the three years ended 31 December 2008, 2007 and 2006
(in thousands of Russian Rubles)

RAO UES of Russia). The Group's customer base includes a number of entities controlled by the State (Note 5).

The Government affects the Group's operations through:

- participation of its representatives in the Board of Directors of the Company;
- its tariff regulation within wholesale electricity markets;
- its control over and approval of the Company's investment program; and
- its antimonopoly regulation.

The Federal Service on Tariffs (hereinafter referred to as "FST") regulates electricity tariff by setting maximum electricity tariff levels for final consumers and on the wholesale market, and the Regional services on tariffs (hereinafter referred to as "RSTs") set tariffs for electricity for final consumers and tariffs for electricity distribution through the low voltage grids on regional retail markets. Although there is now some free trading of limited volumes of electricity, currently for the great majority of sales the tariffs which the Group may charge for sales of electricity are governed both by regulations specific to the electricity industry and by regulations applicable to natural monopolies.

The Group's investment programme is subject to agreement with state regulators: the Russian Ministry of Energy (former Russian Ministry of Industry and Energy), the Russian Ministry of Economic Development and FST.

The Company's investment programme is determined in accordance with the General scheme of location of electricity sites for the period through 2020 which was established by the Russian Government as the basis for investment in the sector as at 19 January 2007 (approved by the resolution of the Russian Government No. 215-r dated 22 February 2008).

In accordance with the resolution of the Russian Government (minutes of the Russian Government's meeting No. 27 dated 3 August 2006), construction of the most significant hydropower projects in 2007 through 2008 is financed by including special-purpose investment funds into the revenue from electricity and capacity sales in the wholesale market.

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

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity and capacity sector and to create an environment in which electric utility sector companies can raise the capital required to maintain and expand current capacity. On 28 June 2008 the changes to the Wholesale Electric Power (capacity) Market Rules of the Transition Period (NOREM) were approved by the Resolution of the Government of the Russian Federation No. 476, which provide that starting from 1 July 2008 capacity exceeding the regulated contracts, as well as that of new input generating capacities, is traded at non-regulated prices on a wholesale market. According to the Resolution of the Government of the Russian Federation, capacity can be traded in several ways, including by means of bilateral contracts for the sale of electricity and capacity between the wholesale market participants.

Thus, from 1 July 2008 up to 25 percent of electricity could be sold at market prices, and the schedule of the capacity market liberalisation coincides with that of the electricity power market liberalisation approved by Resolution of the Russian Government No. 643. By 1 January 2011 the schedule envisages that 100 percent of wholesale electricity and capacity will be sold at unregulated market prices. Currently the schedule of the market liberalisation can be revisited.

Establishment and reorganisation of the Group. RAO UES of Russia made the following contributions to the share capital of the Company when the Company was established (Note 15):

- shares of subsidiaries: OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC SShHPP named after P.S. Neporozhny, OJSC Bureiskaya HPP, OJSC Zeiskaya HPP, OJSC Boguchanskaya HPP, OJSC Zaramagskie HPPs, OJSC

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Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Sulakenergo, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, OJSC HydroWGC Management Company;

- cash funds.

On 30 September 2005 the decision of the Board of Directors of RAO UES of Russia approved the target model of the Company's operation. When the model was finalized the Company became a unified operating company that manages its branches – hydroelectric power plants (hereinafter referred to as “HPP” or “HPPs”) and subsidiaries created for the purposes of new activities and implementation of investment projects. The ownership share of the Russian Federation in the share capital of the Company should be not less than 50 percent + 1 share.

In August 2006, in the course of further sector reorganisation, RAO UES of Russia made the following contributions to the Company in exchange for an additional share issue (Note 15):

- shares of subsidiaries: OJSC Cheboksarskaya HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Stavropolskaya Electric Hydrogenerating Company, OJSC VNIIG named after B.E. Vedeneev, OJSC NIIES, OJSC Zaramagskie HPPs and OJSC Zelenchukskie HPPs;
- the assets of Novosibirskaya HPP;
- cash funds;
- other assets.

On 27 April 2007 the Board of Directors of RAO UES of Russia approved the scheme of the accelerated consolidation of the Company into a unified operating company which provided for the following stages:

Stage 1. Additional issue of the Company's shares in 2007:

The decision about the increase in the charter capital was made by the Board of Directors of RAO UES of Russia on 25 May 2007.

The Report on the results of the additional issue was registered by the Federal Service on Financial Markets of Russia on 1 November 2007. As a result an additional 15,909,613,920 shares were placed (Note 15).

In October 2007 RAO UES of Russia and the Russian Federation made contributions to the Group in exchange for the additional shares issued.

RAO UES of Russia's contribution was made by:

- shares of subsidiaries: OJSC Verhne-Mutnovskaya GeoES, OJSC Zelenchukskie HPPs, OJSC Zaramagskie HPPs, OJSC Sulakenergo, OJSC ESKO UES, OJSC Severo-Osetinskaya HGC (HGC -Hydrogenerating Company), OJSC Geoterm (Note 15);
- shares of other companies: OJSC Vilyuiskaya HPP-3, OJSC Krasnoyarskaya HPP (Note 9);
- cash funds.

The Russian Federation represented by the Federal agency of federal property management made contribution by cash.

Stage 2. The Company's reorganisation in 2008:

On 9 January 2008 the following entities were merged into the Company:

OJSC Volzhskaya HPP, OJSC Zhigulevskaya HPP, OJSC Votkinskaya HPP, OJSC SShHPP named after P.S. Neporozhny, OJSC Zeiskaya HPP, OJSC Sulakenergo, OJSC Zelenchukskie HPPs, OJSC Kabbalk HPP, OJSC Dagestanskaya Regional Hydrogenerating Company, OJSC Stavropolskaya Electric Hydrogenerating Company, OJSC Zagorskaya HAEPP, OJSC Bureiskaya HPP, OJSC Severo-Osetinskaya HGC, OJSC Cheboksarskaya HPP, OJSC Nizhegorodskaya HPP, OJSC Saratovskaya HPP, OJSC Kamskaya HPP, OJSC Kaskad VV HPPs, CSJC EOZ, OJSC Kabbalk Hydrogenerating Company (Note 2).

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On 1 July 2008 as a result of RAO UES of Russia's reorganisation the shares of the Company owned by RAO UES of Russia were split between OJSC State Holding HydroWGC and OJSC Minority Holding HydroWGC in proportion to the State and the minorities' stakes in RAO UES of Russia.

On 1 July 2008 OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP were merged into the Company. The merger was performed by conversion of additionally issued shares of the Company into shares of OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP. According to the merger agreement the Company's shares received from the merged entities and not used in the conversion of shares of the merged entities were cancelled during 2008.

The Company received the following investments as a result of the reorganisation:

- shares of subsidiaries LLC Index Energetiki – HydroWGC, OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Chirkeygesstroy, OJSC Krasnoyarskenergosbyt, OJSC Lengidproekt;
- shares of associates OJSC WGC-1, OJSC GVC Energetiki, OJSC UEMC;
- other investments.

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

Recent volatility in global financial markets. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing 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.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates.

The existing economic situation of the world and Russian economies and a forecast decrease of GDP may affect electricity consumption. Accordingly, the Government of the Russian Federation could revise its forecast of social-economic development during 2009-2012, and that could result in changes to the terms of the liberalisation of wholesale market and plans of electricity tariff indexation.

Any change of terms of the wholesale market liberalisation and plans of electricity tariff indexation may influence the Group's revenues. Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments of accounts receivables (Note 12), property, plant and

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equipment (Note 7), available-for-sale financial assets (Note 9), investments in associates and jointly controlled entities (Note 8).

Current economic environment may result in the adjustment of the investment programs of utility sector entities that were defined by the general scheme of the utility objects allocation (approved in 2007). The scheme was devised on basis of electricity consumption growth rate that is not achievable under current circumstances.

In conditions of cut-back in financing, in developing an amended investment programme the Company's management made an assessment of the possible change in demand for electricity after electricity stations are put in operation, the feasibility of investors meeting their obligations.

As a result of the amendment of the Company's investment programme, including decrease of state financing amounts through the Company's additional issue of stock the following was amended: expenses to construct new electricity stations were cut back, in some projects terms of putting into operation were postponed, except for investment projects which have a high priority. High priority projects are those which are at a final stage and to be put into operation in the near future.

Therefore, the Company's investment programme is adjusted to the actual economic environment.

The fair values of property, plant and equipment (except for construction in progress, office buildings and land) measured using the revaluation model in accordance with IAS 16 are updated with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If there is no market-based evidence of fair value, fair value is estimated using a depreciated replacement cost approach. Management has updated the carrying value of property, plant and equipment (except for construction in progress, office buildings and land) measured in accordance with the revaluation model as at the reporting date using a depreciated replacement cost approach (Notes 4, 7).

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the Group's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Note 2. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these combined and consolidated financial statements (hereinafter referred to as the "Financial Statements"). All subsidiaries are incorporated and operate in the Russian Federation except for HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd which were incorporated in the Republic of Cyprus.

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	31 December 2006		31 December 2007		31 December 2008	
	% of ownership	% of voting	% of ownership	% of voting	% of ownership	% of voting
1 OJSC Bureiskaya HPP**	94.71%	94.71%	94.71%	94.71%	—	—
2 OJSC Cheboksarskaya HPP*	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	—	—
3 OJSC Dagestanskaya Regional Hydrogenerating Company*	51.00%	51.00%	51.00%	51.00%	—	—
4 CJSC EOZ*	—	—	99.98%	99.98%	—	—
5 OJSC Kabalk HPP*	81.42%	81.42%	83.37%	83.37%	—	—
6 OJSC Kabardino-Balkarskaya Hydrogenerating Company**	65.27%	65.27%	69.36%	69.36%	—	—
7 OJSC Kamskaya HPP*	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	—	—
8 OJSC Kaskad VV HPPs*	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	—	—
9 OJSC Nizhegorodskaya HPP*	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	—	—
10 OJSC Saratovskaya HPP*	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	—	—
11 OJSC Severo-Osetinskaya HGC*	50.33%	50.33%	97.43%	97.43%	—	—
12 OJSC SSH HPP named after P.S. Neporozhny*	78.90%	82.78%	78.90%	82.78%	—	—
13 OJSC Stavropolskaya Electric Hydrogenerating Company*	55.12%	71.93%	55.12%	71.93%	—	—
14 OJSC Sulakenergo*	78.53%	78.53%	99.35%	99.35%	—	—
15 OJSC Volzhskaya HPP*	83.31%	86.39%	83.31%	86.39%	—	—
16 OJSC Volkinskaya HPP*	59.84%	74.20%	59.84%	74.20%	—	—
17 OJSC Zagorskaya HAEPP*	50.90%	50.90%	50.90%	50.90%	—	—
18 OJSC Zeiskaya HPP*	56.39%	72.20%	56.39%	72.20%	—	—
19 OJSC Zelenchukskie HPPs*	53.49%	53.49%	99.97%	99.97%	—	—
20 OJSC Zhigulevskaya HPP*	84.11%	86.86%	84.11%	86.86%	—	—
21 OJSC Kaskad NChHPP**	65.27%	65.27%	69.36%	69.36%	—	—
22 OJSC Irganayskaya HPP**	—	—	100.00%	100.00%	—	—
23 OJSC VNIIG named after B.E. Vedenev	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	100.00%	100.00%
24 CJSC Boguchanskaya HPP	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
25 CJSC Boguchanskaya HPP Construction Organizer	—	—	51.00%	51.00%	51.00%	51.00%

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	31 December 2006		31 December 2007		31 December 2008	
	% of ownership	% of voting	% of ownership	% of voting	% of ownership	% of voting
26 CJSC Boguchansky Aluminium Plant Construction Customer.....	—	—	51.00%	51.00%	51.00%	51.00%
27 OJSC Chuvashskaya energy retail company**	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
28 OJSC Elektromont VKK.....	84.11%	86.86%	84.11%	86.86%	100.00%	100.00%
29 OJSC ESKO UES.....	51.00%	51.00%	100.00%	100.00%	100.00%	100.00%
30 OJSC Geoterm**	71.61%	71.61%	71.61%	71.61%	71.61%	71.61%
31 OJSC Gidroiinvest (former OJSC Lengidproekt)	—	—	100% – 1 share	100% – 1 share	100.00%	100.00%
32 OJSC Gidroiinvest VKK	84.11%	86.86%	84.11%	86.86%	100.00%	100.00%
33 HydroOGK Power Company Ltd	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
34 HydroOGK Aluminium Company Ltd	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
35 OJSC Karachaevo-Cherkesskaya Hydrogenerating Company.....	53.49%	53.12%	99.97%	99.97%	100.00%	100.00%
36 OJSC Malaya Mezenskaya TidalPP	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
37 OJSC MosoblGidproekt	—	—	—	—	62.54%	62.54%
38 OJSC Nizhne-Bureiskaya HPP	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
39 OJSC Nizhne-Zeiskaya HPP	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
40 OJSC Novy binarny energoblok	—	—	100% – 1 share	100% – 1 share	100.00%	100.00%
41 OJSC Prometey.....	51.00%	51.00%	51.00%	51.00%	100.00%	100.00%
42 OJSC REMIK	56.39%	72.20%	56.39%	72.20%	100.00%	100.00%
43 OJSC HydroWGC Management Company.	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	100.00%	100.00%
44 OJSC Ryazanskaya energy retail company**	49.00%	49.00%	49.00%	49.00%	90.52%	90.52%
45 OJSC SShATC	78.90%	82.78%	78.90%	82.78%	100.00%	100.00%
46 OJSC SShGER	78.90%	82.78%	78.90%	82.78%	100.00%	100.00%
47 OJSC NIIES	100% – 1 share	100% – 1 share	100% – 1 share	100% – 1 share	100.00%	100.00%
48 LLC SpetsEnergoService	—	—	—	—	99.90%	not applicable
49 OJSC Sulaksky Gidrokaskad	—	—	71.74%	71.74%	100.00%	100.00%
50 CJSC Technopark Rumyantsevo***	—	—	—	—	100.00%	100.00%

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	31 December 2006		31 December 2007		31 December 2008	
	% of ownership	% of voting	% of ownership	% of voting	% of ownership	% of voting
51 OJSC Turboremont VKK	83.31%	86.39%	83.31%	86.39%	100.00%	100.00%
52 OJSC Verhne-Mutnovskaya GeoES **	56.03%	56.03%	56.03%	56.03%	56.03%	56.03%
53 OJSC Zagorskaya HAEPP-2	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
54 OJSC Zaramagskie HPPs	89.87%	89.87%	95.45%	95.45%	95.45%	95.45%
55 OJSC Yuzhno-Yakutsky GEK	99.99%	99.99%	99.99%	99.99%	100.00%	100.00%
56 OJSC Kolymaenergo **	78.63%	78.63%	70.32%	70.32%	64.27%	64.27%
57 OJSC Ust'-Srednekanskaya HPP **	—	—	70.32%	70.32%	51.86%	51.86%
58 OJSC Ust'-Srednekangestroy **	—	—	70.32%	70.32%	64.27%	64.27%
59 OJSC Krasnoyarskenergosbyt **	51.75%	66.47%	51.75%	66.47%	51.75%	66.47%
60 OJSC ESK RusHydro	—	—	—	—	100.00%	100.00%
61 OJSC Boguchanskaya HPP	64.22%	64.22%	—	—	—	—
62 LLC Index Energetiki – HydroWGC	—	—	—	—	100.00%	not applicable
63 OJSC Chirkeygestroy **	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share	75.00%-1 share
64 OJSC Lengidproekt **	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Differences between the ownership interest and voting interest held in subsidiaries normally represent the effect of preference shares.

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Changes in Group structure

2006

In August 2006, in the course of sector restructuring, RAO UES of Russia made contributions to the Company in exchange for additional shares issued (Notes 1, 15).

In September 2006 the Group established the wholly-owned subsidiaries: HydroOGK Power Company Ltd and HydroOGK Aluminium Company Ltd registered in the Republic of Cyprus within the Boguchansk Energy-Metallurgical Association (hereinafter referred to as "BEMA") framework agreement.

In 2006 the Group acquired 56.0 percent of the share capital of OJSC Severo-Osetinskaya HGC from OJSC Sevkavkazenergo, a fellow subsidiary of RAO UES of Russia.

2007

In October 2007, in the course of further sector restructuring, RAO UES of Russia made further contributions to the Group in exchange for additional shares issued (Notes 1, 15).

The increase of ownership percent in OJSC Sulakenergo and OJSC Zaramagskie HPPs was principally explained by additional shares issues acquired by the Group for cash (Note 15).

In May 2007 the Group acquired a 99.98 percent interest in CJSC EOZ from a third party (Note 15).

The change in ownership in other subsidiaries was due to the establishment of these new entities in the reporting period ended 31 December 2007.

2008

On 9 January 2008 the 18 subsidiaries marked with * above, OJSC Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company ceased to exist as separate legal entities and were merged into the Company forming a single legal entity. That reorganisation was accounted for prospectively. The Group acquired control over OJCS Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company simultaneously with the legal merger; immediately before the merger both companies were controlled by RAO UES of Russia. The acquisition of OJCS Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company has been accounted for as a business combination under common control using the predecessor value method (Note 3).

In March 2008 at an open auction the Group acquired a 100 percent interest in OJSC Chuvashskaya energy retail company and a controlling interest of 49 percent in OJSC Ryazanskaya energy retail company for cash considerations of RR 650,000 thousand and RR 630,000 thousand respectively. Subsequently, in the second half of 2008, an additional 41.52 percent interest in OJSC Ryazanskaya energy retail company was acquired by the Group from minority shareholders for cash consideration of RR 540,784 thousand resulting in the increase of the Group's ownership share in OJSC Ryazanskaya energy retail company to 90.52 percent as at 31 December 2008.

Immediately before the acquisition of those two companies by the Group both companies were controlled by RAO UES of Russia and the acquisition was accounted for as a business combination under common control using the predecessor value method (Note 3). The Group controls OJSC Ryazanskaya energy retail company through the ability to appoint the majority of the members of the Board of Directors of OJSC Ryazanskaya energy retail company, including the chairman of the Board of Directors and the ability to cast an additional vote, if necessary.

In June 2008 the Group acquired an additional interest resulting in a controlling interest in OJSC Kaskad NChHPP from OJSC KabbalkEnergo in exchange for setting-off KabbalkEnergo liabilities to the Company in the amount of RR 2,130,947 thousand. Before and after the acquisition OJSC KabbalkEnergo and the Group were controlled by RAO UES of Russia and therefore the Group accounted for this acquisition as a business combination under common control using the predecessor value method (Note 3).

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On 1 July 2008 OJSC Irganayskaya HPP and OJSC Kaskad NChHPP were merged into the Company.

On 1 July 2008 during the reorganisation of RAO UES of Russia the Company received control over former subsidiaries of RAO UES of Russia: OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Irganayskaya HPP, LLC Index Energetiki – HydroWGC, OJSC Krasnoyarskenergosbyt, OJSC Chirkeygesstroy, OJSC Lengidroproekt. The acquisition of these companies has been accounted for as a business combination under common control using the predecessor value method (Note 3).

In the first half of 2008 the Group purchased a 99.90 percent interest in LLC SpetsEnergoService, which has 62.60 percent of the shares of OJSC MosoblGidroproekt (Note 15), from an unrelated party.

In December 2008 the Group formed the holding company OJSC ESK RusHydro for the purpose of developing the Group retailing segment in accordance with the Group's strategy. The shares of OJSC Krasnoyarskenergosbyt, OJSC Chuvashskaya energy retail company and OJSC Ryazanskaya energy retail company were contributed to this holding by the Group.

The companies marked with ** are accounted for under the predecessor value method and the ownership and percent of voting as at 31 December 2007 and 31 December 2006 reflect the percent of the predecessor as at this date.

The purchase of the subsidiary marked with *** above is in substance an acquisition of land and is accounted for as an asset acquisition (Note 15).

Disposal to jointly controlled Groups

In May 2006 the Company, RAO UES of Russia and RUSAL signed an agreement on mutual financing, construction and exploitation of Boguchanskaya HPP and Boguchansky Aluminium Plant.

The BEMA project includes the completion of construction of Boguchanskaya HPP with installed capacity of 3,000 MWT on the Angara River and construction of Boguchansky Aluminium Plant with a capacity in the order of 600,000 tons a year, which will become one of the major consumers of the electricity generated by HPP.

Pursuant to the terms of the agreement and for financing and controlling of construction and exploitation of Boguchanskaya power plant and Boguchansky Aluminium Plant, the Company and RUSAL have established two limited liability companies in Cyprus with an authorized share capital of ten thousand Cyprus Pounds each, which are jointly controlled by the Company and RUSAL, namely BoGES Ltd and BALP Ltd.

In June 2007 the Company transferred its 64.22 percent interest in OJSC Boguchanskaya HPP, which currently undertakes construction of the Boguchanskaya power plant, and RUSAL transferred its 29.47 percent interest in OJSC Boguchanskaya HPP, USD 80 million of cash and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million to BoGES Ltd. According to the Subscription agreement in respect of BoGES Ltd, the Company's and RUSAL's contributions shall be equal to USD 203.88 million each.

In June 2007 the Company transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL BoAZ Ltd promissory note with a nominal value of USD 30 million and RUSAL transferred its 50 percent interest in CJSC Boguchansky Aluminium Plant and a RUSAL Energy Ltd promissory note with a nominal value of USD 30 million to BALP Ltd. According to the Subscription agreement in respect of BALP Ltd, the Company's and RUSAL's contributions were to be equal to USD 30 million each.

In December 2007 the promissory notes received by BALP Ltd for the total amount of USD 60 million were exchanged for a license for aluminium production technology, which in turn will be transferred to CJSC Boguchansky Aluminium Plant.

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As a result of the above transactions the Company and RUSAL have created: BoGES Group, consisting of BoGES Ltd and OJSC Boguchanskaya HPP, and BALP Group, consisting of BALP Ltd and CJSC Boguchansky Aluminium Plant.

Management assessed the level of control that the Group has over the BoGES Group and the BALP Group and determined that BoGES Group and the BALP Group are jointly controlled and the Group applies the equity accounting method to recognise these investments.

The carrying value of assets and liabilities de-recognised as a result of the formation of the jointly controlled Groups was as follows:

	<u>Carrying value</u>
Property, plant and equipment	16,945,703
Investments in jointly controlled entity	8,169
Other non-current assets	1,084,690
Accounts receivable and prepayments	983,435
Cash and cash equivalents	945,555
Deferred income tax assets	6,032
Non-current and current debt	(12,919,128)
Accounts payable and accrued charges	(435,395)
Carrying value of net assets	<u>6,619,061</u>

A gain of RR 270,565 thousand was recognised in 2007 on the transfer of the Company's interest in OJSC Boguchanskaya HPP from a subsidiary to the jointly controlled BoGES Group.

Note 3. Basis of preparation

Statement of compliance

These 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 the Regulations on Accounting and Reporting of the Russian Federation (hereinafter referred to as "RAR"). The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (hereinafter referred to as "RR"), which is the Group's functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

Accounting for the effects of hyperinflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" (hereinafter referred to as "IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts of these financial statements.

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Predecessor accounting

In these combined and consolidated financial statements, the Group accounted for the acquisition of businesses under the control of RAO UES of Russia and its subsidiaries as business combinations amongst entities under common control under an accounting policy using the predecessor values method (Note 4).

Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value as determined by RAO UES of Russia in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2006 has been restated as if the business combination took place at the beginning of the earliest period presented.

The prior year income statement and balance sheet are not the same as those previously presented due to the transfer of businesses under common control during the current period that have been accounted for using the predecessor values method and retrospectively presented in all periods reported.

All businesses acquired in 2006 and 2007 were accounted for using the predecessor values method.

In 2008 the following former subsidiaries of RAO UES of Russia were received by the Group during reorganisation: OJSC Bureiskaya HPP, OJSC Chuvashskaya energy retail company, OJSC Ryazanskaya energy retail company, OJSC Kabardino-Balkarskaya Hydrogenerating Company and OJSC Kaskad NChHPP, OJSC Kolymaenergo, OJSC Ust'-Srednekanskaya HPP, OJSC Ust'-Srednekangesstroy, OJSC Irganayskaya HPP, LLC Index Energetiki – HydroWGC, OJSC Krasnoyarskenergosbyt, OJSC Chirkeygesstroy, OJSC Lengidroproekt, which were accounted for using predecessor values.

Acquisitions of assets that are not business from entities under common control are not accounted for using the predecessor values method, but rather are accounted for under appropriate accounting standards.

The establishment of the Group is described in the Note 1.

New accounting developments

These combined and consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2007, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2008.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, “Operating Segments” (effective for annual periods beginning on or after 1 January 2009). 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 and specifies how an entity should report such information. The Group will apply the new amendment from 1 January 2009 and is currently assessing what impact the new IFRS will have on its combined and consolidated financial statements;
- Amendment to IAS 23, “Borrowing Cost” (effective for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying

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assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.

- Amendment to IAS 1, “Presentation of Financial Statements” (revised September 2007, 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 will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: 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 (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 Group expects the revised IAS 1 to affect the presentation of its combined and consolidated financial statements starting in 2009.
- Amendment to IAS 32 and IAS 1, “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its combined and consolidated financial statements.
- IAS 27, “Consolidated and Separate Financial Statements” (revised 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. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- Amendments to IFRS 2, “Share-based Payment Vesting Conditions and Cancellations” (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters: it clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- IFRS 3, “Business Combinations” (revised 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 acquisition 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

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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 the new standard to any business combination in 2010.

- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). 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 amendments will not have an impact on the Group's combined and consolidated financial statements.
- 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, with earlier application permitted). 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 Group is currently assessing the impact of the amendment on its combined and consolidated financial statements.
- IFRIC 13, “Customer Loyalty Programmes”, which is effective for annual periods beginning on or after 1 July 2008; 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 Group does not operate any loyalty programmes.
- IFRIC 15, “Agreements for the Construction of Real Estate” (effective from 1 January 2009). 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. IFRIC 15 is not currently relevant to the Group's operations because it does not have any agreements for the construction of real estate.
- IFRIC 16, “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008). 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 gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- IFRIC 17, “Distribution of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how 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

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disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group will apply IFRIC 17 if it distributes non-cash assets to owners in the future.

- IFRS 1, “First-time Adoption of International Financial Reporting Standards” (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 to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its combined and consolidated financial statements.
- The amendments to the IFRSs which are the part of the IASB’s annual improvements project published in May 2008 are effective from 1 January 2009. In 2007, 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 issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; 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. The Group does not expect the amendments to have any material effect on its combined and consolidated financial statements.
- On 16 April 2009 the IASB issued “Improvements to IFRSs”, a collection of amendments to 12 standards as part of its program of annual improvements. The latest amendments were included in exposure drafts published in October 2007, August 2008 and January 2009. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. The Group is assessing the impact of those pronouncements on its consolidated and combined financial statements.
- On 13 October 2008, the IASB issued amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset

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made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

- 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 Group’s combined and consolidated financial statements.
- Improving Disclosures about Financial Instruments – Amendment to IFRS 7, “Financial Instruments: Disclosures” (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) 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 (b) 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 Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 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 Group is currently assessing the impact of the amendment on disclosures in its combined and consolidated financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but did not result in a significant impact for the Group:

- IFRIC 12, “Service Concession Agreements”, effective for annual periods beginning on or after 1 January 2008;
- IFRIC 14, IAS 19, “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”, which is effective for annual periods beginning on or after 1 January 2008.

Unless otherwise described above, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group’s combined and consolidated financial statements.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported 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

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that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Revaluation of property, plant and equipment

As at 31 December 2008 the Company's management decided to carry out the revaluation of property, plant and equipment based on changes in economic conditions of business environment and an increase of the inflation rate. Fair value of property, plant and equipment and remaining useful lives as at 31 December 2008 were determined by an independent appraiser.

The carrying value and depreciation of property, plant and equipment are effected by the estimates of replacement cost, depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment (Note 7).

Impairment provision of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility 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 (Note 12).

Impairment of other assets and accounting for provisions

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered 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.

Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (Note 17).

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

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.

Impairment of available-for-sale financial assets

In determination under IAS 39 whether an available-for-sale financial asset is impaired, the Group evaluates whether, among other factors, how long and to what extent the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The impairment decision is made on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. Impairment charges are disclosed in Note 9.

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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 IFRS financial information (Note 30).

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 physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Note 4. 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 that control effectively commences until the date that control effectively ceases. The minority interest has been disclosed as part of equity.

Inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Investments in associates and jointly controlled entities. Investments in associated enterprises and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which the Company exercises significant influence but which it does 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 in, associates and jointly controlled entities.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale. Available-for-sale investments are measured at fair value with gains and losses recorded directly in equity. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments.

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.

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The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated statement of income. 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 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 these combined and consolidated financial statements as an adjustment to equity (a merger reserve).

Carve-out methodologies. These consolidated and combined financial statements include carved out financial statement data of Novosibirskaya HPP and Lengidroproekt for the period and from the predecessor legal entities as outlined in the table below.

Company	Predecessor legal entity	Period requiring carve-out accounting
Novosibirskaya HPP	RAO UES of Russia	from 1 January 2006 to 1 November 2006
Lengidroproekt	OJSC Inzhenernyi centre UES	from 1 January 2006 to 3 December 2007

In carving out this financial statement data, the following determinations were made:

- sales were determined on an actual basis;
- operating expenses were determined on an actual basis;
- depreciation of property, plant and equipment was calculated on IFRS predecessor values;
- general and administrative overheads were not allocated but were determined on an actual basis;
- current income tax was determined using the effective income tax rate of the predecessor entities;
- deferred income tax was determined from movements in deferred tax assets/liabilities between 1 January 2006 and the date of set up of stand-alone legal entities;
- property, plant and equipment were based on IFRS predecessor values and rolled back to 1 January 2006 taking into account additions and disposals before their spin-off;
- accounts payable, taxes payable, accounts receivable, inventories were determined on an actual basis.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, 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 from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

As at 31 December 2008, 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 29.38: USD 1.00 (31 December 2007: RR 24.55: USD 1.00, 31 December 2006: RR 26.33: USD 1.00), between RR and EURO RR 41.44: EURO 1.00 (31 December 2007: RR 35.93: EURO 1.00, 31 December 2006: RR 34.70: EURO 1.00).

Property, plant and equipment. In years 2005 and 2006 property, plant and equipment were recognised at the carrying value determined in accordance with IFRS at the date of their transfer to the Group from the predecessor entities.

Starting from 1 January 2007 the Group changed its accounting policy for property, plant and equipment (except for construction in progress, office buildings and land) which are now stated at

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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. 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. Property, plant and equipment of merged common control entities are included into the Group property, plant and equipment for the years 2008, 2007, 2006 based on predecessor accounting.

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 difference is recognised as an expense (impairment charge) in the income statement. An impairment charge recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless there is a decrease of the reserve previously recognised in the statement of operations. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly 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, and the net amount is restated to the revalued amount of the asset.

The Group charges deferred tax liabilities directly to equity in respect of revaluation of property, plant and equipment that are recorded directly in equity.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

The useful life of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful life are accounted for as a change in an accounting estimate prospectively.

The revised useful lives, in years, of revalued assets by type of facility were as follows :

Type of facility	Revised starting from 1 January 2007	Revised starting from 1 January 2009
Production buildings.....	20-70	40-65
Hydrotechnical buildings	35-75	35-77
Substations' equipment	5-40	5-30
Electricity grids	6-30	3-30
Other	4-35	2-25

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 and not capitalised within the cost of property, plant and equipment.

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.

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Impairment of property, plant and equipment. Impairments of property, plant and equipment are calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of fair value less cost to sell or estimated value in use at the date the impairment review is undertaken. Fair value less cost 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. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when there is a change in the estimates that gave rise to impairment and when, in management's opinion, the reversal is permanent (Note 7).

Cash and cash equivalents. Cash comprises cash in hand, cash deposited on demand at banks and short-term bank promissory notes. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

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 amount of impairment at the end of the 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.

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 substantively enacted by the balance sheet date.

Deferred income taxes. 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 business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date 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.

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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 16).

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.

Borrowing costs. Prior to 1 January 2009, the Group recognised all borrowing costs as an expense in the period in which they are incurred.

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 balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date 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.

Value added tax on purchases and sales. Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

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

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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 (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.

Segment reporting. A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue or result are ten percent or more of all the segments are reported separately. The Group operates substantially in one geographical segment – the Russian Federation.

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 balance sheet date only if they are declared (approved by shareholders) before or on the balance sheet date. Dividends are disclosed when they are declared after the balance sheet date, but before the financial statements are authorized 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

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and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Note 5. Segment information

The Group is organised into three main business segments:

"Generation segment" consists of companies responsible for electricity (capacity) generation, including hydrogenerating stations under construction. The great majority of electricity (capacity) is produced on hydroelectric power stations and sold through the Wholesale electricity market based on tariff set by FST.

"Retailing segment" was formed as a result of the acquisition of three electricity retailing companies (OJSC Chuvashskaya energy retail company, OJSC Ryazanskaya energy retail company, OJSC Krasnoyarskenergosbyt) during the year ended 31 December 2008 (Note 2). Those companies are responsible for sale of electricity to final customers based mainly on tariffs set by RSTs. The retailing segment operates independently of the generation segment. The cost of sales of the retailing segment includes power purchased from third party companies and only a small part of electricity (capacity) is purchased from the generation segment.

"Unallocated segment" consists of numerous insignificant segments including research and development, construction, repair, and others.

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions through business combinations. Impairment loss provisions relate only to those charges made against allocated assets.

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Segment information for the main reportable business segments of the Group for the years ended 31 December 2008, 2007 and 2006 is set out below:

Operations	Year ended 31 December 2008				
	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	63,676,480	40,016,630	3,976,671	—	107,669,781
Inter-segment revenue	584,307	—	1,386,738	(1,971,045)	—
Total Revenues	64,260,787	40,016,630	5,363,409	(1,971,045)	107,669,781
Segment result	21,684,133	1,617,796	(290,362)	—	23,011,567
Impairment release /charge of property, plant and equipment.....	(32,589,332)	—	36,511	—	(32,552,821)
Operating (loss)/profit	(10,905,199)	1,617,796	(253,851)	—	(9,541,254)
Finance income	—	—	—	—	1,911,063
Finance costs	—	—	—	—	(3,405,879)
Impairment of available-for-sale investments.....	—	—	—	—	(6,464,323)
Share of result of associates and jointly controlled entities	219,911	—	(1,751,259)	—	(1,531,348)
Loss before income tax	—	—	—	—	(19,031,741)
Income tax expense	—	—	—	—	(448,557)
Loss for the year	—	—	—	—	(19,480,298)
Segment assets	396,814,838	3,391,481	8,306,761	—	408,513,080
Inter-segment balances	18,669,979	—	5,672,338	(24,342,317)	—
Total segment assets	415,484,817	3,391,481	13,979,099	(24,342,317)	408,513,080
Investments in associates and jointly controlled entities .	11,456,943	—	4,342,240	—	15,799,183
Current and deferred tax assets	—	—	—	—	2,058,836
Total assets	—	—	—	—	426,371,099
Segment liabilities.....	18,009,624	2,107,204	4,068,516	—	24,185,344
Inter-segment balances	5,672,338	—	18,669,979	(24,342,317)	—
Total segment liabilities	23,681,962	2,107,204	22,738,495	(24,342,317)	24,185,344
Current and deferred tax liability	—	—	—	—	35,181,173
Non-current and current debt	—	—	—	—	23,392,386
Total liabilities	—	—	—	—	82,758,903
Other segment items					
Capital expenditure	33,328,620	79,298	519,475	—	33,927,393
Depreciation and amortisation	(9,299,019)	(21,009)	(12,674)	—	(9,332,702)

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Year ended 31 December 2007					
Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	46,450,454	30,838,243	3,467,774	—	80,756,471
Inter-segment revenue	849,960	37,082	2,340,150	(3,227,192)	—
Total Revenues	47,300,414	30,875,325	5,807,924	(3,227,192)	80,756,471
Segment result	10,253,553	156,820	(45,860)	—	10,364,513
Operating profit/(loss)	10,253,553	156,820	(45,860)	—	10,364,513
Finance income	—	—	—	—	439,050
Finance costs	—	—	—	—	(2,263,869)
Share of result of associates and jointly controlled entities	(17,036)	—	(102,273)	—	(119,309)
Profit/(loss) before income tax	—	—	—	—	8,420,385
Income tax expense	—	—	—	—	(2,949,364)
Profit/(loss) for the year	—	—	—	—	5,471,021
Segment assets	299,284,137	2,199,876	5,295,721	—	306,779,734
Inter-segment balances	370,346	—	5,253,343	(5,623,689)	—
Total segment assets	299,654,483	2,199,876	10,549,064	(5,623,689)	306,779,734
Investments in associates and jointly controlled entities .	159,721	—	5,946,264	—	6,105,985
Current and deferred tax assets	—	—	—	—	660,642
Total assets	—	—	—	—	313,546,361
Segment liabilities	13,715,478	1,591,861	3,373,581	—	18,680,920
Inter-segment balances	5,253,343	—	370,346	(5,623,689)	—
Total segment liabilities	18,968,821	1,591,861	3,743,927	(5,623,689)	18,680,920
Current and deferred tax liability	—	—	—	—	32,668,347
Non-current and current debt	—	—	—	—	24,017,168
Total liabilities	—	—	—	—	75,366,435
Other segment items					
Capital expenditure	36,683,569	48,671	1,182,254	—	37,914,493
Depreciation and amortisation	(8,425,714)	(13,296)	(18,474)	—	(8,457,485)

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Year ended 31 December 2006					
Operations	Generation	Retailing	Unallocated	Consolidation adjustment	Total
Revenue	23,489,197	25,714,720	4,232,418		53,436,335
Inter-segment revenue	509,412		1,752,671	(2,262,083)	—
Total Revenues	23,998,609	25,714,720	5,985,089	(2,262,083)	53,436,335
Segment result	222,072	42,305	(146,282)		118,095
Impairment release /charge of property, plant and equipment.....	14,942,709	—	28,704		14,971,413
Operating profit/(loss)	15,164,781	42,305	(117,578)		15,089,508
Finance income	—	—	—	—	175,462
Finance costs	—	—	—	—	(991,671)
Profit/(loss) before income tax	—	—	—	—	14,273,299
Income tax expense	—	—	—	—	(6,649,609)
Profit/(loss) for the year	—	—	—	—	7,623,690
Segment assets	163,922,308	1,115,638	2,973,061		168,011,007
Inter-segment balances	563,365	6,379	5,322,749	(5,892,493)	—
Total segment assets	164,485,673	1,122,017	8,295,810	(5,892,493)	168,011,007
Current and deferred tax assets	—	—	—	—	995,281
Total assets	—	—	—	—	169,006,288
Segment liabilities	12,285,446	1,000,652	1,517,438		14,803,536
Inter-segment balances	5,329,128	6,259	557,106	(5,892,493)	—
Total segment liabilities	17,614,574	1,006,911	2,074,544	(5,892,493)	14,803,536
Current and deferred tax liability	—	—	—	—	6,477,340
Non-current and current debt	—	—	—	—	21,582,945
Total liabilities	—	—	—	—	42,863,821
Other segment items					
Capital expenditure	21,542,947	28,320	379,920		21,951,187
Depreciation and amortisation	(4,238,119)	(9,654)	(44,498)		(4,292,271)

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Note 6. Related party transactions

The Group's principal related parties are RAO UES of Russia and its subsidiaries, other enterprises controlled by the state, and the directors of the Group. As at 30 June 2008 77.93 percent of the ordinary shares of the Company were owned by RAO UES of Russia. On 1 July 2008 RAO UES of Russia was liquidated. Shares of the Company held by RAO UES of Russia were transferred to OJSC State Holding HydroWGC and OJSC Minority Holding HydroWGC. Transactions with subsidiaries of RAO UES of Russia, which are controlled by the state as at 31 December 2008, are included in transactions with state-controlled entities.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in 2008, 2007 and in 2006 or had significant balances outstanding at 31 December 2008, 31 December 2007 or at 31 December 2006 is detailed below.

RAO UES of Russia

The Group had the following significant transactions with RAO UES of Russia for the first half of 2008 and for the years ended 31 December 2007 and 31 December 2006 and outstanding balances as at 31 December 2007 and 31 December 2006.

Balances with RAO UES of Russia were as follows:

Short-term

	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12).....	24,860	26,193
Promissory notes receivable:		
effective interest rate 11.6 % p.a. (included in accounts receivable and prepayments) (Note 12).....	2,023,409	6,219,850
Dividends payable (Note 15)	—	809,000
Advances received (Note 20)	1,120,866	4,995,936
Accounts payable (Note 20)	6,650,594	300,000

During 2007 significant purchases of movable assets and real estate assets were made by the Group from RAO UES of Russia. The total amount of property, plant and equipment purchased from RAO UES of Russia amounted to RR 1,073,473 thousand.

The Group paid transmission fees to RAO UES of Russia in the first half of 2008 in the amount of RR 756,704 thousand (during the year ended 31 December 2007: RR 1,243,196 thousand, during the year ended 31 December 2006: RR 1,807,935 thousand).

RAO UES of Russia's subsidiaries and associates

The Group had the following significant transactions with RAO UES of Russia's subsidiaries and associates for the periods ended 31 December 2008, 31 December 2007 and 31 December 2006 and outstanding balances as at 31 December 2007 and 31 December 2006.

Balances with subsidiaries and associates of RAO UES of Russia were as follows:

Long-term

	31 December 2007	31 December 2006
Accounts receivable (Note 12).....	—	67,053
Loan to TGC-5 (effective interest rate: 11.58%, due to 2013) (Note 10).	—	65,275
Accounts payable (Note 20)	19,572	86,257

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Short-term

	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12).....	2,383,710	1,172,804
Promissory notes receivable: effective interest rate: 11.6 % p.a. (included in accounts receivable and prepayments) (Note 12).....	2,127,078	1,802,209
Promissory notes receivable: yield to maturity 9.8-13.2 % p.a. (included in other current assets)	139,212	408,807
Advances received (Note 20)	247,470	92,578
Trade and other accounts payable (Note 20)	427,445	379,470

Transactions with subsidiaries and associates of RAO UES of Russia were as follows:

	Year ended 31 December 2008*	Year ended 31 December 2007	Year ended 31 December 2006
Electricity (capacity) revenue (Note 22).....	11,151,089	28,922,476	18,308,302
Other revenue (Note 22).....	2,805	110,022	2,274,478
Purchased electric power expenses (Note 23).....	2,806,131	10,478,917	4,005,654
Electricity distribution expenses (Note 23).....	3,441,935	1,570,447	9,339,434
Services of SO-CDU (Note 23).....	—	1,231,018	1,076,840
Other expenses (Note 23)	27,946	411,387	328,292

* As a result of the RAO UES of Russia reorganisation during 2007 and 2008 and the liquidation of RAO UES of Russia on 1 July 2008, transactions are presented up to the date of disposal of the entities from the RAO UES Group.

State-controlled entities

In the normal course of business the Group enters into transactions with entities under Government control. Prices for electricity are based on tariffs set by FST and RST. Bank loans are granted at market rates. Taxes are charged and paid in accordance with Russian tax legislation.

During the year ended 31 December 2008 the Group sold electricity to a number of state-controlled entities in the amount of RR 4,800,769 thousand (during the year ended 31 December 2007: RR 2,035,568 thousand, during the year ended 31 December 2006: 774,410 thousand). The major customers were LLC Ryazan municipal retail supplier, LLC Transnefteservice-S, OJSC Nijnovatomenergosbit and OJSC Nevinnomissky Azot.

The Group had the following significant balances with state-controlled entities:

	31 December 2008	31 December 2007	31 December 2006
Trade and other accounts receivable (Note 12)	1,179,330	1,096,229	367,597
Other current assets (Note 14)	2,160,034	—	—
Advances received (Note 20).....	148,211	—	—
Payables to the Federal Agency for State Property Management of the Russian Federation	6,000,000	—	—
Payables to Federal Energy Agency.....	2,450,000	—	—
Trade and other accounts payable (Note 20)	364,969	199,333	113,135

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The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Electricity (capacity) revenue (Note 22).....	4,800,769	2,035,568	774,410
Other revenue (Note 22).....	2,438,688	1,932	—
Purchased electric power expenses (Note 23).....	3,211,198	2,971,114	1,866,400
Services of SO-CDU (Note 23).....	2,349,816	—	—
Other expenses (Note 23).....	594,322	735,771	504,156
	<u>4,800,769</u>	<u>2,035,568</u>	<u>774,410</u>

Associates

The Group had the following significant balances with associates:

	31 December 2008
Trade and other accounts receivable (Note 12)	32,168
Other current assets (Note 14)	40,000
Trade and other accounts payable (Note 20).....	21,848

The Group had the following significant transactions with associates:

	Year ended 31 December 2008
Other revenue (Note 22).....	8,410
Purchased electric power expenses (Note 23).....	158,155
Other expenses (Note 23)	6,914
	<u>166,579</u>

Jointly controlled entities

The Group had the following significant balances with jointly controlled entities:

Short-term

	31 December 2008	31 December 2007
Promissory notes receivable:		
effective interest rate: 11.6 % p.a. (included in accounts receivable and prepayments) (Note 12).....	7,280,207	2,967,898
Advances received (Note 20)	217,704	—
Trade and other accounts payable (Note 20).....	16,285	298,004
	<u>7,514,206</u>	<u>3,265,902</u>

The Group had the following significant transactions with jointly controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity (capacity) revenue (Note 22)	103,681	—
Other revenue (Note 22).....	383,934	8,438
Other expenses (Note 23).....	5,968	—
	<u>493,583</u>	<u>8,438</u>

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The Group directors' compensation

Compensation is paid to members of the Management Board of the Group for their services in full time management positions. The compensation is made up of a contractual salary, performance bonus depending on work results for the period based on key performance indicators. The compensation is approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

Total remuneration in the form of salaries paid to the members of the Board of Directors and Management Board for the year ended 31 December 2008 was RR 96,413 thousand (for the year ended 31 December 2007: RR 104,839 thousand, for the year ended 31 December 2006: RR 75,158 thousand).

Employee share option programme. In May 2007 the Board of Directors approved the Share Option Programme of the Company (hereinafter referred to as “the Programme”) which participants are members of the Management Board and other key employees of the Group (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 of the first share option contract, i.e. from 3 September 2007.

In accordance with the Programme the participants should sign agreements for purchase of the Company's shares implying the property title for the shares to be transferred and payment done in 3 years, starting from 3 September 2007.

Participation of members in the Programme and the number of shares in their share option agreements are determined by decision of the Company's Board of Directors.

A total of up to 3,137,287,475 ordinary shares are allocated under the Programme (or approximately two percent of the issued ordinary shares of the Company). 917,656,581 ordinary shares are allocated for granting share options to the members of the Company's Management Board, the rest – to other key employees of the Group. The ordinary shares ultimately allocated under the Programme were allocated from treasury shares purchased by the Group for this purpose for LLC EZOP – operator of the Programme in 2007. The treasury shares held for the purpose of the Programme are not allowed to vote.

The number of shares, which the Programme participants may purchase as part of implementation of the Programme, will be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labor agreement and termination of 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 the other Programme participants (in the amount of 0.2 percent of the share option agreement).

In 2007 the Company issued to the members of the Company's Management Board interest free loans for the prepayments for the share options agreements. The loans were issued with the maturity till 31 March 2011. As at 31 December 2008 the amount of loans issued to employees was RR 148,058 thousand (Net of discount of RR 47,332 thousand, effective interest rate: 11.8 percent). As at 31 December 2007 – RR 121,027 thousand (net of discount of RR 52,653 thousand, effective interest rate: 11.8 percent).

The Programme participant can exercise the share option at any time over the period of 2 September 2010 through 16 April 2011. The requirement for the exercise of the stock option agreements is to have the Company's shares traded on a public security market as at 3 August 2010.

The number of undistributed shares at 31 December 2008 was 379,559,226 including forfeited options.

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Changes in amounts of options granted are described in the table below:

Options granted under the Programme

Number of options at 1 January 2008	1,685,127,092
Option agreements signed in 2008.....	1,229,347,156
Options forfeited in 2008.....	(156,745,999)
Number of options outstanding at 31 December 2008	<u>2,757,728,249</u>

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 a 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%
Fair value of the option at measurement date (in RR)	<u>0.456</u>

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.

In the year ended 31 December 2008 the Group recognised an expense of RR 749,994 thousand within employee costs related to the fair value of the options (in the year ended 31 December 2007 the Group recognised an expense of RR 268,405 thousand).

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Note 7. Property, plant and equipment

Cost	Production buildings	Hydrotechni- cal buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at							
31 December 2007	61,847,070	117,317,435	2,678,419	65,148,167	68,941,434	12,032,285	327,964,810
Revaluation reserve (net).....	23,038,908	27,664,701	1,022,760	19,591,170	—	2,573,280	73,890,819
Transfers	1,419,880	4,202,986	531,571	2,026,943	(10,605,010)	2,423,630	—
Additions	156,268	824,642	5,158	226,619	31,215,148	1,499,558	33,927,393
Disposals.....	(73,645)	(171)	(7,790)	(329,074)	(149,025)	(58,437)	(618,142)
Elimination of accumulated depreciation	(3,864,232)	(4,724,396)	(297,806)	(8,551,750)	—	(2,930,750)	(20,368,934)
Closing balance as at							
31 December 2008	<u><u>82,524,249</u></u>	<u><u>145,285,197</u></u>	<u><u>3,932,312</u></u>	<u><u>78,112,075</u></u>	<u><u>89,402,547</u></u>	<u><u>15,539,566</u></u>	<u><u>414,795,946</u></u>
Accumulated depreciation (including impairment)							
Opening balance as at							
31 December 2007	(7,032,087)	(11,792,257)	(274,546)	(6,699,901)	(27,374,246)	(3,212,833)	(56,385,870)
Charge of impairment.....	(4,630,836)	(9,800,466)	(691,240)	(2,864,761)	(14,149,598)	(1,038,215)	(33,175,116)
Reversal of impairment	69,553	29,740	691	23,689	328,974	169,648	622,295
Charge for the year.....	(1,377,558)	(2,414,196)	(143,647)	(4,144,050)	—	(1,253,251)	(9,332,702)
Transfers	(117,340)	(28,298)	—	(15,033)	232,218	(71,547)	—
Disposals.....	30,600	9	1,011	39,392	—	152,953	223,965
Elimination of accumulated depreciation	3,864,232	4,724,396	297,806	8,551,750	—	2,930,750	20,368,934
Closing balance as at							
31 December 2008	<u><u>(9,193,436)</u></u>	<u><u>(19,281,072)</u></u>	<u><u>(809,925)</u></u>	<u><u>(5,108,914)</u></u>	<u><u>(40,962,652)</u></u>	<u><u>(2,322,495)</u></u>	<u><u>(77,678,494)</u></u>
Net book value as at							
31 December 2008	<u><u>73,330,813</u></u>	<u><u>126,004,125</u></u>	<u><u>3,122,387</u></u>	<u><u>73,003,161</u></u>	<u><u>48,439,895</u></u>	<u><u>13,217,071</u></u>	<u><u>337,117,452</u></u>
Net book value as at							
31 December 2007	<u><u>54,814,983</u></u>	<u><u>105,525,178</u></u>	<u><u>2,403,873</u></u>	<u><u>58,448,266</u></u>	<u><u>41,567,188</u></u>	<u><u>8,819,452</u></u>	<u><u>271,578,940</u></u>

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Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at							
31 December 2006	30,656,984	65,984,794	2,988,812	58,443,803	90,003,735	14,344,579	262,422,707
Elimination of accumulated depreciation	(9,599,990)	(14,063,297)	(924,870)	(26,986,983)	—	(6,584,847)	(58,159,987)
Revaluation reserve	31,693,192	50,425,236	438,527	31,119,708	—	2,334,891	116,011,554
Additions	1,366,376	3,584,678	42,778	104,791	32,228,880	586,990	37,914,493
Transfers	8,374,014	11,386,024	70,796	2,471,235	(24,319,435)	2,017,366	—
Disposals	(53,125)	—	(4,734)	(304,447)	(222,499)	(290,165)	(874,970)
Disposal of subsidiary to entity under common control (Note 2)	(752,501)	—	(34,478)	(87,750)	(28,859,944)	(684,993)	(30,419,666)
Transfer from joint venture (Note 2)	162,120	—	101,588	387,810	110,697	308,464	1,070,679
Closing balance as at							
31 December 2007	<u>61,847,070</u>	<u>117,317,435</u>	<u>2,678,419</u>	<u>65,148,167</u>	<u>68,941,434</u>	<u>12,032,285</u>	<u>327,964,810</u>
Accumulated depreciation (including impairment)							
Opening balance as at							
31 December 2006	(13,685,257)	(21,710,985)	(1,031,477)	(29,680,574)	(44,649,666)	(8,795,553)	(119,553,512)
Elimination of accumulated depreciation	9,599,990	14,063,297	924,870	26,986,983	—	6,584,847	58,159,987
Charge for the year	(1,350,225)	(1,928,905)	(136,099)	(3,994,978)	—	(1,047,278)	(8,457,485)
Transfer	(1,573,001)	(2,215,664)	—	(57,951)	3,852,014	(5,398)	—
Disposals	22,203	—	200	201,318	33,898	114,946	372,565
Disposal of subsidiary to entity under common control (Note 2)	43,334	—	887	6,822	13,389,508	33,412	13,473,963
Transfer from joint venture (Note 2)	(89,131)	—	(32,927)	(161,521)	—	(97,809)	(381,388)
Closing balance as at							
31 December 2007	<u>(7,032,087)</u>	<u>(11,792,257)</u>	<u>(274,546)</u>	<u>(6,699,901)</u>	<u>(27,374,246)</u>	<u>(3,212,833)</u>	<u>(56,385,870)</u>
Net book value as at							
31 December 2007	<u>54,814,983</u>	<u>105,525,178</u>	<u>2,403,873</u>	<u>58,448,266</u>	<u>41,567,188</u>	<u>8,819,452</u>	<u>271,578,940</u>
Net book value as at							
31 December 2006	<u>16,971,727</u>	<u>44,273,809</u>	<u>1,957,335</u>	<u>28,763,229</u>	<u>45,354,069</u>	<u>5,549,026</u>	<u>142,869,195</u>

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Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Opening balance as at							
31 December 2005	30,149,426	63,672,710	2,893,717	57,725,628	79,231,707	12,835,877	246,509,065
Additions	198,435	1,221,746	2,084	273,692	19,739,740	515,490	21,951,187
Transfers	311,176	1,130,565	111,755	807,497	(3,641,963)	1,280,970	—
Disposals	(2,053)	(40,227)	(18,744)	(363,014)	(5,325,749)	(287,758)	(6,037,545)
Closing balance as at							
31 December 2006	<u>30,656,984</u>	<u>65,984,794</u>	<u>2,988,812</u>	<u>58,443,803</u>	<u>90,003,735</u>	<u>14,344,579</u>	<u>262,422,707</u>
Accumulated depreciation							
(including impairment)							
Opening balance as at							
31 December 2005	(17,865,416)	(30,766,585)	(1,190,615)	(40,184,672)	(34,403,716)	(8,235,989)	(132,646,993)
Charge of impairment	(568,975)	(901,497)	(31,503)	(1,430,973)	(12,150,572)	(189,029)	(15,272,549)
Reversal of impairment	5,173,780	11,298,714	237,931	13,133,393	—	400,144	30,243,962
Charge for the year	(425,701)	(1,372,100)	(65,747)	(1,480,608)	—	(948,115)	(4,292,271)
Disposals	1,055	30,483	18,457	282,286	1,904,622	177,436	2,414,339
Closing balance as at							
31 December 2006	<u>(13,685,257)</u>	<u>(21,710,985)</u>	<u>(1,031,477)</u>	<u>(29,680,574)</u>	<u>(44,649,666)</u>	<u>(8,795,553)</u>	<u>(119,553,512)</u>
Net book value as at							
31 December 2006	<u>16,971,727</u>	<u>44,273,809</u>	<u>1,957,335</u>	<u>28,763,229</u>	<u>45,354,069</u>	<u>5,549,026</u>	<u>142,869,195</u>
Net book value as at							
31 December 2005	<u>12,284,010</u>	<u>32,906,125</u>	<u>1,703,102</u>	<u>17,540,956</u>	<u>44,827,991</u>	<u>4,599,888</u>	<u>113,862,072</u>

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, including hydrogenerating stations under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2008 such advances amounted to RR 6,793,191 thousand (31 December 2007: RR 5,861,046 thousand, 31 December 2006: RR 2,228,607 thousand).

In 2006 the Company signed an Investing agreement with the Federal Agency of Railway Transport and OJSC Russian Railway. The purpose of the agreement is the joint construction and renovation of a railway line Izvestkovaya-Chegdomin, which is close to the zone of water reservoirs of Bureiskaya HPP. The Company incurred costs in 2007 in the amount of RR 956,800 thousand. The amount of the Company's investment in this project was included in Construction in progress as at 31 December 2008.

In March 2007 the Joint Venture under partnership agreement signed in 1998 between OJSC Geoterm, RAO UES of Russia, OJSC Kamchatskenergo and Kamchatka Region State Property Management Committee (hereinafter referred to as "KUGI"), which financed the construction of Mutnovskaya GeoES, ceased and the assets were transferred to OJSC Geoterm. As a result, OJSC Geoterm's interest in Mutnovskaya GeoES increased from 74.76 percent to 100 percent. This is shown as a "Transfer from joint venture".

The assets transferred to the Group did not include the land on which the Group's buildings and facilities are situated. The relationships of use and alienability of the land are regulated by 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.

Impairment. The impairment provision included in accumulated depreciation balance as at 31 December 2008 was RR 77,678,494 thousand (31 December 2007: RR 45,789,420 thousand, 31 December 2006: RR 59,396,136 thousand).

Impairment as at 31 December 2008. Management of the Company analyzed the current economic situation and decided that new indications of impairment existed due to volatility of

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markets and 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. Hydropower plants were considered to be separate cash-generating units. The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results and business plans for 2009-2012;
- A discount rate of 13.80% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on an average weighted average cost of capital;
- The forecast period was 12 years for all Group companies;
- 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.

Charge of impairment as at 31 December 2008. Due to the poor relative economic circumstances and the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions, for a number of cash-generating units the discounted cash flows calculated as at 31 December 2008 supported a value for related property, plant and equipment below their historic carrying value prior to any previously recognised revaluation surpluses. For these assets an additional impairment was recognised in the amount of RR 33,175,116 thousand as at 31 December 2008.

Reversal of impairment as at 31 December 2008. Management's assessment indicated that the value in use of certain property, plant and equipment, previously impaired, is higher than their net book value for some stations. Consequently, the Group recorded as at 31 December 2008 the reversal of the previously recognised impairment loss in the amount of RR 622,295 thousand.

Impairment as at 31 December 2006. Management of the Company concluded that as at 31 December 2006 there were indications for reversing the previously recognised impairment losses based on significant changes with a favorable effect on the Group that have occurred or were expected to occur in the near future in the market and economic environment in which the Group operates. Such changes included:

- Upward revisions, based on recent trends, in the expected growth of demand for electricity in the majority of regions of Russia;
- Higher degree of certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1);
- These developments resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash-generating units as at 31 December 2006. An impairment review was carried out by comparing the recoverable amount of the individual cash-generating units with their net book values. For the purposes of the review, for generating assets each of the Group's Hydropower plants was used as the relevant cash-generating unit. The recoverable amount for generating and other operating assets was based on their value in use, which was calculated based on the estimated future cash flows using various assumptions including the following:
 - Inflation rate would not exceed 8 percent per year;
 - Increase of major variable costs would not exceed the inflation rate;
 - The discount rate range used to determine assets value in use of 13.24 percent.

Charge of impairment as at 31 December 2006. Management's assessment indicated that the value in use of property, plant and equipment is lower than their net book for OJSC Kolymaenergo recorded an additional charge for impairment as a result of the lack of access to the free trading sector for electricity and the setting of low tariffs for this operating unit. Consequently, the Group recorded as at 31 December 2006 the charge of impairment in the amount of RR 15,272,549 thousand.

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Reversal of impairment as at 31 December 2006. Management's assessment indicated that the value in use of certain property, plant and equipment, previously impaired, is higher than their net book value for some stations. Consequently, the Group recorded as at 31 December 2006 the reversal of the previously recognised impairment loss in the amount of RR 30,243,962 thousand.

Revaluation as at 31 December 2008. As at 31 December 2008 the Group performed the revaluation of property, plant and equipment (except for construction in progress, office buildings and land) using an independent appraiser. Economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in the profitability tests was 13.80 percent. The forecast period was 12 years for all Group companies. The long-term rate of growth in sales volumes was approximately 0.5 percent for all Group companies.

As a result of the revaluation undertaken as at 31 December 2008, a number of the separately identified cash-generating units had revalued amounts in excess of the carrying value of the related property, plant and equipment, but below the recoverable amount when calculated using the discounted cashflows. For these assets, the revaluation surplus recognised as a result of the revaluation was restricted to that supported by the relevant discounted cash flow.

As a result of the revaluation, the Group's equity increased by RR 63,256,282 thousand, comprising an increase in the carrying value of property, plant and equipment of RR 79,070,353 thousand, net of a related deferred tax liability of RR 15,814,071 thousand.

Where the recoverable value was lower than the carrying value of the property, plant and equipment before the revaluation undertaken 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 4,143,627 thousand, comprising a decrease in the carrying value of property, plant and equipment of RR 5,179,534 thousand, net of a related deferred tax assets of RR 1,035,907 thousand.

Revaluation as at 01 January 2007. Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment (except for construction in progress, office buildings and land) (Note 4). Fair values were determined by independent appraisers primarily based on the depreciated replacement cost method. The replacement cost of production and hydrotechnical buildings and electricity grids were estimated based on technical characteristics. The replacement cost of equipment was estimated based on data of aggregative replacement cost, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used in the profitability tests varied from 10.5 to 19.1 percent. The forecast period is 19-20 years for all Group companies. The long-term rate of growth in sales volumes is approximately 3 percent for all Group companies.

As a result of the revaluation, the Group's equity increased by RR 88,168,781 thousand, comprising an increase in the carrying value of property, plant and equipment of RR 116,011,554 thousand, net of a related deferred tax liability of RR 27,842,773 thousand.

Due to the decrease of the income tax rate from 24% to 20%, the amount of deferred tax related to revaluation reserve recognised as at 31 December 2007 was reassessed in 2008 as RR 4,622,059 thousand. This decrease of deferred tax liability amount was accounted for in equity.

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For each revalued class of property, plant and equipment stated at a revalued amount in these combined and consolidated financial statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows:

Cost	Production buildings	Hydrotechnical buildings	Electricity grids	Substation's equipment	Assets under construction	Other	Total
Net book value as at							
31 December 2008	26,803,719	61,100,475	2,509,207	30,392,924	48,439,895	9,536,906	178,783,126
Net book value as at							
31 December 2007	25,787,686	57,749,755	2,053,240	29,965,315	41,567,188	6,671,433	163,794,617

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 2008 the net book value of leased property plant and equipment was RR 3,882,821 thousand (31 December 2007: RR 4,709,290 thousand, 31 December 2006: RR 1,495,143 thousand). 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 2008	31 December 2007	31 December 2006
Less than one year	336,707	314,656	264,470
Between one year and five years	1,264,308	1,150,064	957,428
After five years	10,561,027	10,858,639	9,253,163
Total	12,162,042	12,323,359	10,475,061

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 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	Charge directly to equity	Other movements	Carrying value as at 31 December 2008
Associates						
OJSC Corporation of South Yakutiya development	33,021	—	(3,984)	—	—	29,037
OJSC GVC Energetiki.....	—	151,553	(3,956)	—	—	147,597
OJSC WGC-1	—	10,708,048	249,524	152,657	—	11,110,229
OJSC UEMC.....	—	72,690	(457)	—	—	72,233
CJSC Boguchanskaya HPP Construction Customer	6	—	(6)	—	—	—
CJSC Boguchansky Aluminium Plant Construction Organizer.....	252	—	739	—	—	991
Total Associates	33,279	10,932,291	241,860	152,657	—	11,360,087
Jointly controlled entities						
BoGES Group	5,081,203	—	(886,198)	75,309	—	4,270,314
BALP Group	865,061	—	(855,299)	—	55,146	64,908
LLC Corporation of Zabaikalie Development	16,849	—	(6,259)	—	—	10,590
OJSC Corporation of Krasnoyarsk region development	30,506	—	(120)	—	—	30,386
RusSUNHydroLimited.....	79,087	—	(25,332)	9,143	—	62,898
Total Jointly controlled entities	6,072,706	—	(1,773,208)	84,452	55,146	4,439,096
Total Investments in associates and jointly controlled entities	6,105,985	10,932,291	(1,531,348)	237,109	55,146	15,799,183

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As at 31 December 2007 the Group's interests in associates and jointly controlled entities were as follows:

	Carrying value as at 31 December 2006	Additions	Share of profit/ (loss) of associates and jointly controlled entities	Carrying value as at 31 December 2007
Associates				
OJSC Corporation of South Yakutiya development	—	37,650	(4,629)	33,021
CJSC Boguchanskaya HPP Construction Customer (Note 2)	—	5	1	6
CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2)	—	5	247	252
Total Associates	—	37,660	(4,381)	33,279
Jointly controlled entities				
BoGES Group	—	5,282,443	(201,240)	5,081,203
BALP Group	—	766,104	98,957	865,061
LLC Corporation of Zabaikalie Development	—	30,000	(13,151)	16,849
OJSC Corporation of Krasnoyarsk region development	—	30,000	506	30,506
RusSUNHydroLimited.....	—	79,087	—	79,087
Total Jointly controlled entities.....	—	6,187,634	(114,928)	6,072,706
Total Investments in associates and jointly controlled entities	—	6,225,294	(119,309)	6,105,985

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The following is summarised financial information, in aggregate, in respect of significant associates and jointly controlled entities:

31 December 2008	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit/ (Loss)
Associates							
OJSC Corporation of South Yakutiya development.....	25.10	25.10	140,937	(25,253)	52,896	(68,769)	(15,873)
OJSC GVC Energetiki	42.53	42.53	644,245	(297,204)	122,698	(131,999)	(9,301)
OJSC WGC-1	22.69	22.69	70,411,168	(21,445,856)	25,120,000	(24,020,290)	1,099,710
OJSC UEMC	20.67	20.67	355,267	(5,809)	141,135	(143,344)	(2,209)
CJSC Boguchanskaya HPP Construction Customer	49.00	49.00	3,648	(3,691)	46,093	(46,149)	(56)
CJSC Boguchansky Aluminium Plant Construction Organizer	49.00	49.00	157,145	(155,123)	250,063	(248,555)	1,508
Jointly controlled entities							
BoGES Group.....	50.00	50.00	30,983,030	(22,442,402)	224,974	(1,997,369)	(1,772,395)
BALP Group.....	50.00	50.00	14,130,140	(18,035,451)	126,051	(5,769,253)	(5,643,202)
LLC Corporation of Zabaikalie Development...	50.00	50.00	21,788	(608)	—	(12,518)	(12,518)
OJSC Corporation of Krasnoyarsk region development.....	25.00	25.00	122,027	(483)	7,927	(8,407)	(480)
RusSUNHydroLimited	50.00	50.00	139,996	(14,202)	—	(50,663)	(50,663)

In 2008, as a result of the reorganisation of RAO UES of Russia, 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.

31 December 2007	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit/ (Loss)
Associates							
OJSC Corporation of South Yakutiya development.....	25.10	25.10	134,042	(2,485)	5,960	(24,403)	(18,443)
CJSC Boguchanskaya HPP Construction Customer ...	49.00	49.00	2,290	(2,277)	29,358	(29,355)	3
CJSC Boguchansky Aluminium Plant Construction Organizer ...	49.00	49.00	11,876	(11,361)	83,862	(83,357)	505
Jointly controlled entities							
BoGES Group.....	50.00	50.00	24,110,291	(14,191,405)	147,722	(550,201)	(402,479)
BALP Group.....	50.00	50.00	14,439,512	(12,701,222)	343,803	(145,870)	197,933
LLC Corporation of Zabaikalie Development..	50.00	50.00	36,409	(2,711)	—	(26,301)	(26,301)
OJSC Corporation of Krasnoyarsk region development.....	25.00	25.00	121,908	(955)	8,229	(6,204)	2,025
RusSUNHydroLimited	50.00	50.00	79,087	—	—	—	—

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During 2007 the Group entered into the following arrangements:

- together with OJSC Techsnabexport, OJSC IG ALROSA, CJSC Yakutskie ugli – Novieologii and the Government of the SAHA region the Group participated in *OJSC Corporation of South Yakutiya Development*. One of the main purposes of this company is the construction of Kankunskaya HPP on the river Timpton with the capacity of 1,600 MWT;
- together with LLC IFC Metropol the Group participated in the foundation of *LLC Corporation of Zabaikalie Development*. The purpose of this company is the construction of a large industrial complex, including Mokskaya HPP and Ivanovskaya HPP on the river Vitim with total capacity of 1,410 MWT and other industrial facilities to consume the electricity produced by these HPPs;
- together with LLC Company Bazovy element, OJSC Krasnoyarskiy zavod cvetnykh metallov named after V.N. Gulidov, Vnesheconombank the Group participated in *OJSC Corporation of Krasnoyarsk region Development* for the purpose of development the Krasnoyarskiy region and joint investment into construction of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant together with OJSC RUSAL;
- in June 2007 the Group and the SUN Group of India signed a memorandum about cooperation in the development of the hydropower industry in India. As a result, the jointly controlled entity *RusSunHydro Limited* was created for the purpose of managing the construction of new HPPs in the territory of India;
- in June 2007, together with RUSAL, the Group established BoGES Group and BALP Group, CJSC Boguchanskaya HPP Construction Customer, CJSC Boguchansky Aluminium Plant Construction Organizer (Note 2).

Note 9. Available-for-sale financial assets

In 2007 the Company received as a contribution to its share capital by RAO UES of Russia the following shares: 1.9 percent interest in OJSC Vilyuiskaya HPP-3 and 0.12 percent interest in OJSC Krasnoyarskaya HPP (Note 2).

In 2008 as a result of the reorganisation of RAO UES of Russia the Company obtained 100% share of LLC Index Energetiki – HydroWGC with investments in various utilities companies. These investments are classified as available-for-sale financial assets in these combined and consolidated financial statements and accounted at fair values as of the date of receipt of these investments on 1 July 2008.

The fair values of the available-for-sale financial instruments accounted for by LLC Index Energetiki-HydroWGC as at 1 July 2008 were calculated based on the quoted market prices or, where the quotations were not available, based on valuation techniques.

The Group assessed them 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 analysis of trading volumes for the period from July to December 2008 confirmed lack of 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 exists at 31 December 2008.

The impairment of these investments as at 31 December 2008 totaled RR 6,464,323 thousand and was recorded through profit and loss.

The Company's management does not have an intention to sell the shares in the short-term period.

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Note 10. Other non-current assets

	31 December 2008	31 December 2007	31 December 2006
VAT recoverable.....	1,311,118	1,046,157	1,103,707
Long-term loans receivable (Net of discount of RR 125,398 thousand, effective interest rate: 11.76%-17% due 2011 as at 31 December 2008).....	213,243	600,994	531,250
Promissory notes and deposits (Net of discount of RR 1,000,765 thousand, due 2010 as at 31 December 2008).....	11,942,734	—	—
Other long-term assets (Net of provision for impairment on debtors of RR 231,281 thousand, effective interest rate: 11.76% – 16%, due 2010 – 2020 as at 31 December 2008 and RR 288,005 thousand as at 31 December 2007, effective interest rate: 11.5% – 11.76%, due 2010 – 2013 and RR 256,100 thousand as at 31 December 2006, effective interest rate: 11.58%-15.5%, due 2009 – 2013).....	1,523,623	840,990	333,703
Total other non-current assets	<u>14,990,718</u>	<u>2,488,141</u>	<u>1,968,660</u>

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2008
LLC Finance corporation Otkritie.	CCC	S&P	9.2% – 9.6%	not earlier 2010	4,113,924
LLC VTB bank	BBB	S&P	7.0%	not earlier 2010	5,312,307
Investment company KIT Finance.	—	—	13.0%	2010	2,516,503
					<u>11,942,734</u>

Note 11. Cash and cash equivalents

	31 December 2008	31 December 2007	31 December 2006
Cash at bank and in hand.....	7,060,429	5,493,798	2,826,263
Cash equivalents (contractual interest rate: 1.10% – 12.94%)	17,777,433	2,772,950	3,778,070
Total cash and cash equivalents	<u>24,837,862</u>	<u>8,266,748</u>	<u>6,604,333</u>

Cash equivalents held as at 31 December 2008, 31 December 2007 and 31 December 2006 comprised short-term RR bank deposits and short-term bank promissory notes of less than 3 months duration.

Cash balances denominated in USD currency amounts as at 31 December 2008 were RR 623 thousand (31 December 2007: RR 2,545 thousand, 31 December 2006: RR 734 thousand). Cash balances denominated in EURO were RR 12,578 thousand as at 31 December 2008 (31 December 2007: RR 25 thousand, 31 December 2006: RR 1,805 thousand).

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Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2008	31 December 2007	31 December 2006
Bank deposits and promissory notes					
OJSC Sberbank of Russia	Baa1	Moody's	9,981,630	120,000	—
CJSC VTB24	BBB	Standard & Poor's	7,116,303	—	358,000
OJSC Alemar Bank	—	—	400,000	500,000	—
OJSC Bank Vozrozhdenie	BB-	Standard & Poor's	275,000	—	—
OJSC Commercial Bank of Support to Commerce and Business	B2	Moody's	4,500	—	—
OJSC KIT Finance	—	—	—	1,800,000	3,000,000
OJSC Alfa-Bank	BB-	Standard & Poor's	—	352,950	—
OJSC VTB	BBB	Standard & Poor's	—	—	205,000
OJSC Vostochny Express Bank	—	—	—	—	120,000
OJSC Gazprombank	BBB-	Standard & Poor's	—	—	56,000
OJSC Aziatsko-Tihookeansky Bank ..	—	—	—	—	39,000
OJSC Bank of Moscow	Baa2	Moody's	—	—	70
Total cash equivalents			17,777,433	2,772,950	3,778,070
Cash at banks					
OJSC Gazprombank	BB+	Standard & Poor's	5,277,330	1,648,438	69,050
OJSC Sberbank of Russia	Baa1	Moody's	621,871	1,835,901	860,250
CJSC VTB24	BBB	Standard & Poor's	309,049	543,585	19,075
OJSC Alfa-Bank	BB-	Standard & Poor's	159,183	10,314	—
LLC Creditinvest	—	—	114,914	77,295	16,707
OJSC CB Sotsgorbank	B-	Standard & Poor's	98,859	151,000	—
OJSC Evrofinance Mosnarbank	Ba3	Moody's	88,108	424,904	298,996
OJSC Bank Vozrozhdenie	BB-	Standard & Poor's	75,284	14,746	—
OJSC VTB	BBB	Standard & Poor's	66,757	153,793	444,891
OJSC Strategia	—	—	65,514	—	—
OJSC Bank of Moscow	Baa1	Moody's	36,306	43,046	201,349
OJSC Promsvyazbank	BB-	Standard & Poor's	14,058	48,598	107,620
OJSC Kolyma-Bank	—	—	12,610	—	—
OJSC ROSBANK	BB+	Standard & Poor's	10,615	27,321	8,513
OJSC Kamchatkomagprombank	—	—	10,311	—	—
OJSB Bank of Khakassia	—	—	10,102	116,663	5,061
OJSC Prio-Vneshtorgbank	—	—	9,266	13,987	16,169
LLC Commercial bank of social development Dagestan	—	—	9,031	—	—
LLC CB Uzdun	—	—	8,813	—	—
OJSC Orienbank	—	—	7,425	1,784	10,850
CJSC Gazbank	Baa1	Moody's	7,189	—	—
OJSC Tembr-Bank	—	—	5,792	—	—
OJSC Moscow Industrial Bank	—	—	4,104	—	—
OJSC Chuvachcreditprombank	—	—	3,697	1,440	1,796
LLC CB ChirkeyEnergoBank	—	—	3,516	16,231	15,308
OJSC Rosevrobank	—	—	3,010	85,734	—
OJSC Dig-Bank	—	—	2,538	—	—
OJSC Commercial Bank of Support to Commerce and Business	B2	Moody's	1,650	—	—
CJSC ING Bank (Eurasia)	AA-	Standard & Poor's	1,390	—	—
OJSC Nomos-Bank	—	—	—	124,912	—
OJSC Lesprombank	—	—	—	45,116	14,348
RTS Settlement Chamber	—	—	—	36,997	80,105
CJSC Texbank	—	—	—	21,941	—
OJSB Mezhtopenergobank	—	—	—	20,216	1,125
LLC Municipal Bank named after S. Zhivago	—	—	—	9,759	—

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	<u>Rating</u>	<u>Rating agency</u>	<u>31 December 2008</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
OJSC Volgoprombank	—	—	—	4,190	2,527
LLC TransinvestBank	—	—	—	—	398,961
OJSC Sobinbank	Baa2	Moody's	—	—	168,987
LLC Dagernergobank	—	—	—	—	44,550
Other	—	—	22,137	15,887	40,025
Total cash at banks			<u>7,060,429</u>	<u>5,493,798</u>	<u>2,826,263</u>

Note 12. Accounts receivable and prepayments

	<u>31 December 2008</u>	<u>31 December 2007</u>	<u>31 December 2006</u>
Trade receivables (Net of provision for impairment debtors of RR 1,952,695 thousand as at 31 December 2008, RR 922,352 thousand as at 31 December 2007 and RR 710,974 thousand as at 31 December 2006)	6,363,168	3,419,220	1,618,638
Promissory notes (Net of discount of RR 0 thousand as at 31 December 2008, RR 43,465 thousand as at 31 December 2007: effective interest rate 11.6% p.a. (Note 6) and RR 0 thousand as at 31 December 2006)	8,647,698	7,576,764	7,974,284
Total financial assets	<u>15,010,866</u>	<u>10,995,984</u>	<u>9,592,922</u>
Advances to suppliers and prepayments (Net of provision for impairment debtors of RR 14,997 thousand as at 31 December 2008, RR 70,200 thousand as at 31 December 2007 and RR 2,207 thousand as at 31 December 2006)	1,179,690	1,216,006	856,999
Income tax receivables	2,058,836	660,642	995,281
Value added tax recoverable	6,284,104	5,981,657	3,483,979
Other prepaid taxes	43,582	41,477	—
Other receivables (Net of provision for impairment debtors of RR 36,890 thousand as at 31 December 2008, RR 81,845 thousand as at 31 December 2007 and RR 8,310 thousand as at 31 December 2006)	1,108,031	1,889,540	1,134,527
Total accounts receivable and prepayments	<u>25,685,109</u>	<u>20,785,306</u>	<u>16,063,708</u>

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electricity (capacity) (hereinafter referred to as “NOREM”), which is regulated by Non-commercial Partnership Administrator of Trade System (hereinafter referred to as “NP ATS”).

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. 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.

As at 31 December 2008, receivables of RR 785,648 thousand (31 December 2007: RR 433,139 thousand, 31 December 2006: RR 299,153 thousand) were past due but not impaired. These relate to

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a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

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	1,934	121,005	336,539	326,170	785,648
% to total.....	0%	15%	43%	42%	

31 December 2007	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts Receivable past due, not impaired	194,439	122,679	111,977	4,044	433,139
% to total	45%	28%	26%	1%	

31 December 2006	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts Receivable past due, not impaired	182,219	43,666	72,234	1,034	299,153
% to total	61%	15%	24%	0%	

Trade and other receivables individually determined to be impaired (gross):

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
As at 1 January	1,074,397	721,491	481,141
Charge for the year	1,202,085	371,486	328,944
Reversal of impairment	(170,196)	(9,732)	(88,360)
Trade receivables written-off as uncollectible	(101,704)	(8,848)	(234)
As at 31 December.....	2,004,582	1,074,397	721,491

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 collateral as security.

Note 13. Inventories

	31 December 2008	31 December 2007	31 December 2006
Materials and supplies.....	574,202	634,324	804,157
Other inventories.....	461,009	386,005	189,060
Total inventories.....	1,035,211	1,020,329	993,217

The above inventory balances are shown net of an obsolescence provision for RR 11,999 thousand as at 31 December 2008, RR 28,062 thousand as at 31 December 2007, and RR 65,251 as at 31 December 2006 respectively.

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As at 31 December 2008, 31 December 2007 and 31 December 2006, the inventory balances did not include any inventories pledged as collateral under loan agreements.

Note 14. Other current assets

	31 December 2008	31 December 2007	31 December 2006
Promissory notes and deposits: yield to maturity 8.8%-17.0% p.a.....	4,727,041	3,152,753	424,329
Other short-term investments.....	60,148	45,655	62,347
Derivative financial instruments.....	107,160	—	—
Total other current assets.....	4,894,349	3,198,408	486,676

Promissory notes and deposits	Rating	Rating agency	Effective interest rate	31 December 2008	31 December 2007	31 December 2006
Promissory notes						
LLC FC Otkrytie	CCC	Standards & Poor's	9.4%-10.1%	2,223,489	3,008,130	—
OJSC SO UES	—	—	8.8%	2,160,034	—	—
OJSC GVC Energetiki	—	—	17.0%	40,000	—	—
OJSC Evrofinance Mosnarbank....	Ba3	Moody's	—	3,500	5,116	—
OJSC KabBalkenergo	—	—	14.0%	—	139,212	327,025
OJSC DagEnergo	—	—	—	—	—	81,782
Others	—	—	—	18	295	15,522
Short-term Deposits						
OJSC Sberbank	Baa1	Moody's	9.0%	150,000	—	—
OJSC Kamchatkomagprombank ..	—	—	9.0%	150,000	—	—
Total promissory notes and deposits				4,727,041	3,152,753	424,329

Note 15. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor values basis of accounting (Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative period and as at 1 January 2006 as if the current Group structure had existed from 1 January 2006 (Note 3). As the Group was formed as a result of share issues completed after 1 January 2006, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding adjustment in the merger reserve and recognition of minority interest.

	Ordinary shares 31 December 2008	Ordinary shares 31 December 2007	Ordinary shares 31 December 2006
Number of issued ordinary shares	245,014,059,191	156,864,373,776	140,954,759,856
Par value (in RR).....	1.00	1.00	1.00

On 26 December 2004, the date when the Company was established, the number of issued ordinary shares amounted to 103,951,322,702 with a par value of RR 1.00 each.

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The contributions to the Company's share capital were effected as follows:

- RR 103,849,528 thousand received by way of contribution of RAO UES of Russia's controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounting to RR 101,795 thousand.

In August 2006, in the course of further sector restructuring, 37,003,437,154 additional ordinary shares of the Company with a par value of RR 1.00 each were issued. RAO UES of Russia made the following contributions to the Company in exchange for additional shares issued:

- RR 14,346,885 thousand received by way of contribution of RAO UES of Russia's controlling interest in the Group's subsidiaries and investments in other companies (Note 2);
- RR 91,058 thousand received by way of contribution of RAO UES of Russia's 12.4 percent interest in OJSC Zaramagskie HPPs and 1.6 percent interest in OJSC Zelenchukskie HPPs;
- RR 2,711,573 thousand received by way of contribution of Novosibirskaya HPP assets (business);
- cash contributions amounted to RR 20,000,000 thousand;
- RR 245,001 thousand received by way of contribution of other various assets.

Total contribution was RR 37,394,517 thousand. Share premium received in excess of the par value was RR 391,080 thousand.

In October 2007, in the course of further sector restructuring 15,909,613,920 additional ordinary shares of the Company with a par value of RR 1 each were issued. RAO UES of Russia made the following contributions to the Company in exchange for additional share issue:

- RR 2,146,125 thousand received by way of contribution of RAO UES of Russia's interest in the Group's subsidiaries and investments in other companies (Note 2);
- cash contributions amounted to RR 14,950,000 thousand.

Russian Federation cash contributions amounted to RR 5,000,000 thousand.

The total contribution was RR 27,523,632 thousand, including treasury shares purchased by the Company. Share premium received in excess of the par value was RR 11,614,019 thousand.

On 9 January 2008 18 subsidiaries of the Group, OJSC Bureiskaya HPP and OJSC Kabardino-Balkarskaya Hydrogenerating Company merged into the Company and became one legal entity as a result of the legal reorganisation (Notes 1, 2). According to the results of the share conversion, 38,996,122,959 additional shares of the Company were placed and share capital increased to RR 195,860,497 thousand. Minority stakes in these companies were exchanged for ordinary shares of the Company. Major movements in minority interest for the reporting period result from the above reorganisation.

On 1 July 2008, as a result of the reorganisation of RAO UES of Russia, OJSC State Holding HydroWGC, OJSC Minority Holding HydroWGC, OJSC Irganayskaya HPP and OJSC Kaskad NChHPP merged into the Company. According to the results of the share conversion, additional shares of the Company were placed and share capital increased to RR 245,014,059 thousand.

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Treasury shares. Treasury shares as at 31 December 2008 represent 5,882,055,227 ordinary shares in the amount of RR 8,172,275 thousand (3,137,287,475 ordinary shares in the amount of RR 5,427,507 thousand as at 31 December 2007 allocated for the Share Option Programme (Note 6), as at 31 December 2006 – 0).

	Year ended 31 December 2008	Year ended 31 December 2007
As at 1 January	5,427,507	—
Treasury shares received as a result of reorganisation.....	2,744,768	5,427,507
As at 31 December	8,172,275	5,427,507

Treasury shares were received by the Group during the reorganisation process in the form of a legal merger in 2008. The Company's treasury shares were held by the following subsidiaries: LLC Index Energetiki – HydroWGC, OJSC Chirkeygesstroy, OJSC Zaramagskie HPP and OJSC Irganayskaya HPP, OJSC Kaskad NChHPP.

Treasury shares received during 2008 are accounted for at nominal value of 1 RR per share. Difference between the nominal value and the cost of received treasury shares has been recorded in retained earnings within equity.

Merger reserve. Based on the application of predecessor values basis of accounting (Note 3) the difference of RR 77,449,212 thousand as at 31 December 2008 (31 December 2007: 40,249,247 thousand, 31 December 2006: RR 39,473,786 thousand) 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 interest. In 2006 OJSC Zelenchukskie HPPs issued 89,242,749 additional ordinary shares with a par value of RR 10.0 each fully paid by RAO UES of Russia. The cash contribution amounted to RR 892,427 thousand and the increase of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2006 OJSC Kolymaenergo issued 600,000,000 additional ordinary shares with a par value of RR 1 each fully paid by the State. The increase of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Sulakenergo issued 145,280,300 additional ordinary shares with a par value of RR 10 each fully paid by the Group. The cash contribution amounted to RR 1,452,803 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Zaramagskie HPPs issued 1,004,740 additional ordinary shares with a par value of RR 1,000 each fully paid by the Group. The cash contribution amounted to RR 1,004,740 thousand and the decrease of minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2007 OJSC Kolymaenergo issued 1,274,380,327 additional ordinary shares with par value of RR 1 each. 1,200,000,000 ordinary shares were paid by the State and 74,380,327 ordinary shares were paid by RAO UES of Russia. The change in minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

In 2008 OJSC Kolymaenergo issued 1,050,000,000 additional ordinary shares with a par value of RR 1 each in favour of the State. The change in minority interest was reflected in the statement of changes in equity at the date of the additional share issue.

Acquisition and disposal of subsidiaries. In 2006 the Group acquired 56.00 percent of the share capital of OJSC Severo-Osetinskaya HGC from OJSC Sevkavkazenergo, a subsidiary of RAO UES of Russia, for a cash consideration of RR 110,327 thousand.

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The acquisition of OJSC Severo-Osetinskaya HGC was accounted for using the predecessor values basis of accounting method from 1 January 2006.

In 2007 all the contributions and purchases of shares were of entities that were already subsidiaries of the Group except for OJSC Geoterm and OJSC Verhne-Mutnovskaya GeoES.

In 2007 the Group acquired 99.98 percent of the share capital of CJSC EOZ from a third party for a cash consideration of RR 969,203 thousand. CJSC EOZ owned an office building only and therefore this transaction is not a business combination and no goodwill arose on the acquisition.

In 2007 OJSC Boguchanskaya HPP was disposed from a subsidiary to jointly-controlled entity (Note 2).

In 2008 the Group acquired OJSC Chuvashskaya energy retail company and OJSC Ryazanskaya energy retail company for cash consideration and additional interest in OJSC Kaskad NChHPP from OJSC KabbalkEnergO in exchange for setting-off KabbalkEnergO liabilities to the Company and accounted for these transactions as business combinations under common control (Note 2).

In 2008 the Group acquired 100 percent of the share capital of CJSC Technopark Rumyantsevo from a third party for a cash consideration of RR 1,061,779 thousand. CJSC Technopark Rumyantsevo owns 5.8 hectares of land, which is its main asset. This transaction is not a business combination as the acquiree is not a business and was accounted as an acquisition of assets.

In 2008 the Group acquired 99.90 percent of the share capital of LLC SpetsEnergOService from a third party for a cash consideration of RR 352,651 thousand. At the time of acquisition LLC SpetsEnergOService owned 62.60 percent of shares of OJSC MosoblGidroproekt, which is a research and design institute. LLC SpetsEnergOService and OJSC MosoblGidroproekt have not prepared IFRS financial statements before and the disclosure of IFRS values of acquired assets, liabilities and contingent liabilities is impracticable. The disclosure of the provisional purchase price allocation has not been made due to immateriality, and is mostly attributable to goodwill and intangible assets included in other non-current assets. The effect of the acquired business on the Group's profit and revenue was insignificant.

Effect of carve-out accounting. In 2006 the Group recorded the effect resulting from the carve-out accounting of Novosibirskaya HPP and related rental agreement for the period and from the predecessor legal entity. Included within the merger reserve in 2006 is RR 173,227 thousand of carved out rental revenues and expenses related to periods from 1 January 2006 to 1 November 2006 for Novosibirskaya HPP property, plant and equipment within RAO UES of Russia, predecessor legal entity (Note 3).

Dividends. In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The Company did not declare any dividends for the year ended 31 December 2008. The dividends declared by the Company were recognised as a liability and deducted from equity for the year 31 December 2007 in the amount RR 1,240,053 thousand (for the year ended 31 December 2006: RR 1,778,466 thousand).

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Note 16. Income tax

Income tax charge is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax expense	8,347,610	4,653,474	1,836,144
Deferred income tax (benefit)/ expense	(7,899,053)	(1,704,110)	4,813,465
Total income tax charge.....	448,557	2,949,364	6,649,609

During 2008, 2007 and 2006 most entities of the Group were subject to tax rates of 24 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

From 1 January 2009 the income tax rate for Russian companies has been reduced to 20 percent. This rate has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2008.

A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
(Loss)/Profit before income tax	(19,031,741)	8,420,385	14,273,299
Theoretical income tax charge at an average statutory tax rate of 24 percent.....	4,567,618	(2,020,892)	(3,425,592)
Tax effect of items which are not deductible or assessable for taxation purposes	(1,351,914)	(798,964)	(456,189)
Non-deductible items related to impairment of investments.....	(1,735,451)	—	—
Effect of change in tax rate.....	(693,632)	—	—
Unrecognised deferred tax assets	(1,235,178)	(129,508)	(2,767,828)
Total income tax charge.....	(448,557)	(2,949,364)	(6,649,609)

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Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20 percent, the rate expected to be applicable when the assets or liabilities will be realised.

	31 December 2007	Charged (credited) to the income statement	Charged directly to equity	Disposal of subsidiary	31 December 2006
Deferred income tax liabilities.....	36,823,981	35,370	27,852,017	(109,738)	9,046,332
Property, plant and equipment	36,214,145	71,165	27,842,773	(107,331)	8,407,538
Loans and borrowings.....	502,030	(59,405)	—	(48)	561,483
Other.....	107,806	23,610	9,244	(2,359)	77,311
Deferred income tax assets.....	(4,262,025)	(1,739,480)	—	115,770	(2,638,315)
Property, plant and equipment	(2,121,891)	(545,823)	—	105,073	(1,681,141)
Accounts receivable	(750,136)	12,200	—	8,104	(770,440)
Other.....	(1,389,998)	(1,205,857)	—	2,593	(186,734)
Deferred income tax liabilities, net...	32,561,956	(1,704,110)	27,852,017	6,032	6,408,017

	31 December 2006	Charged (credited) to the income statement	31 December 2005
Deferred income tax liabilities.....	9,046,332	3,508,536	5,537,796
Property, plant and equipment	8,407,538	4,075,352	4,332,186
Loans and borrowings.....	561,483	(40,724)	602,207
Other.....	77,311	(526,092)	603,403
Deferred income tax assets.....	(2,638,315)	1,304,929	(3,943,244)
Property, plant and equipment	(1,681,141)	1,471,810	(3,152,951)
Accounts receivable	(770,440)	(222,839)	(547,601)
Other.....	(186,734)	55,958	(242,692)
Deferred income tax liabilities, net.....	6,408,017	4,813,465	1,594,552

In 2008 a deferred tax expense of RR 10,156,105 thousand (in 2007: RR 27,842,773 thousand) has been recorded directly in equity in respect of the revaluation of the Group's property, plant and equipment (Note 7).

Investments in subsidiaries and jointly controlled entities. Prior to 31 December 2008 the Group did not record a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries and jointly controlled entity as it was not probable that the Company would receive dividends in the foreseeable future. The estimated unrecorded deferred tax liabilities for such differences as at 31 December 2006 were RR 15,150,212 thousand. With effect from 1 January 2008 no tax is payable on dividends paid to a parent by subsidiaries (if certain requirements are met). Also, in 2008 22 subsidiaries ceased to exist as separate legal entities and became branches of the Company. Consequently, as at 31 December 2008 and 31 December 2007, no significant unrecorded deferred tax liabilities existed in the Group in respect of the investments.

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Note 17. Pension benefits

The tables below provide information about the benefit obligations and actuarial assumptions used for the year ended 31 December 2008, 2007 and 2006.

Amounts recognised in the Group's consolidated balance sheet:

	31 December 2008	31 December 2007	31 December 2006
Present value of defined benefit obligations.....	1,984,215	1,731,455	1,388,626
Present value of unfunded obligations.....	1,984,215	1,731,455	1,388,626
Unrecognised actuarial (loss)/gains	227,997	9,650	—
Unrecognised past service cost.....	(726,276)	(733,649)	(575,975)
Net liability	1,485,936	1,007,456	812,651

Amounts recognised in the Group's consolidated income statement:

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost.....	96,393	71,114	11,563
Interest cost	116,627	108,108	28,740
Net actuarial loss.....	1,402	12,223	—
Past service cost.....	390,066	133,011	8,873
Curtailment gain.....	(22,321)	—	—
Other.....	—	—	731,414
Net expense recognised in income statement	582,167	324,456	780,590

Changes in the present value of the Group's pension benefit obligation are as follows:

	31 December 2008	31 December 2007	31 December 2006
Projected Benefit Obligation at the beginning of the year	1,731,455	1,388,626	283,595
Service cost.....	96,393	71,114	11,563
Interest cost	116,627	108,108	28,740
Actuarial loss/(gain)	(205,530)	2,573	(1,619)
Past service cost.....	382,693	290,686	341,922
Benefits paid	(103,686)	(129,652)	(6,989)
Curtailment gain.....	(33,737)	—	—
Other.....	—	—	731,414
Present value of pension benefit obligations at end of the year.....	1,984,215	1,731,455	1,388,626

Experience adjustment on plan liabilities is as follows:

	31 December 2008	31 December 2007	31 December 2006
Defined benefit obligation	1,984,215	1,731,455	1,388,626
Plan assets	—	—	—
Deficit	1,984,215	1,731,455	1,388,626
Experience adjustments on plan liabilities	40,433	2,573	(1,619)
Experience adjustments on plan assets.....	—	—	—

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The Group expects to contribute RR 138,895 thousand to the defined benefit plans during the year beginning 1 January 2009.

Principal actuarial assumptions are as follows:

	31 December 2008	31 December 2007	31 December 2006
Nominal discount rate.....	9.0%	6.75%	6.8%
Wage growth rate.....	8.0%	7.0%	7.0%
Inflation rate.....	7.0%	6.0%	5.0%

Note 18. Current and non-current debt

Non-current debt

	Currency	Effective interest rate	Due date	31 December 2008	31 December 2007	31 December 2006
Bonds issue (OJSC HydroWGC Management Company).....	RR	8.10%	2011	5,000,000	5,000,000	5,000,000
EBRD (tranche 1).....	RR	3.65%+MOSPRIME	2020	2,023,778	2,000,015	2,000,015
EBRD (tranche 2).....	RR	2.75%+MOSPRIME	2014	850,000	850,000	850,000
EBRD (tranche 3).....	RR	3.05%+MOSPRIME	2016	3,150,000	3,150,000	3,150,000
Morgan Stanley Bank International Ltd.....	RR	8.75%	2013	3,000,000	3,000,000	3,000,000
CF Structured Products B.V... Morgan Stanley Bank International Ltd.....	USD	10.5%	2013	1,762,824	1,472,772	—
Municipal authority of Kamchatka region.....	RR	1.5%+MOSPRIME	2014	1,500,000	1,500,000	—
Ministry of Railways of Russia	RR	LIBOR+3%	2035	1,197,979	964,528	992,710
Other long-term debt	RR	12.00%	2009	—	971,269	1,471,269
Long-term derivative financial instruments – interest rate swaps	RR	—	—	323,448	184,504	—
Finance lease liabilities.....	RR	11.10%-20.00%	2010	240,340	—	—
Total				22,130,937	22,698,976	17,193,605
Less current portion of finance lease liabilities.....				(2,064,077)	(1,315,921)	(257,370)
Less current portion of non- current debt.....				(51,375)	(542,922)	(539,465)
Total non-current debt				20,015,485	20,839,133	16,396,769

European Bank for Reconstruction and Development. (hereinafter referred to as “EBRD”). In September 2006 the Group received a loan, in three tranches, of RR 6,300,000 thousand from European Bank for Reconstruction and Development. Tranche 1 is stated net of transaction costs incurred in the amount of 276,222 thousand as at 31 December 2008 (31 December 2007: 299,985 thousand). The funds will be used to finance a program to upgrade and re-equip HPPs of the Volzhskaya-Kamskaya Cascade. 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 Austria and the arrangers are CJSC Citibank, Credit Suisse and Banque Societe Generale Vostok. Interest is payable quarterly. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008 the Group was in compliance with all its covenants under the facility.

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 5,000,000 thousand. The bonds were sold at a par value of RR 1,000 rubles, with a yield of 8.1 percent per annum. The yield is payable every six months. The bonds are repayable in July 2011. The bonds issue was

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sponsored by the KIT Finance Investment Bank. The bond issue proceeds will be used to finance the completion of Boguchanskaya HPP and the needs of Group's subsidiaries.

Morgan Stanley Bank International Ltd. (hereinafter referred to as "Morgan Stanley"). In April 2007 the Group obtained a loan of RR 1,500,000 thousand from Morgan Stanley. The funds are intended to be used for financing capital expenditure projects in accordance with the Group's investment programme. The loan bears interest at 1.5%+MOSPRIME per annum and is scheduled for repayment in April 2014. The interest is payable each half a year. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008, the Group was in compliance with all its covenants under the facility.

In December 2006 the Group obtained a loan of RR 3,000,000 thousand from Morgan Stanley. The funds are intended to be used for financing of the Company's investment programme. The loan bears interest at 8.75 percent per annum and is scheduled for repayment in December 2013. The interest is payable on a monthly basis. The Group is subject to certain financial and other covenants under the facility. As at 31 December 2008, the Group was in compliance with all its covenants under the facility.

Municipal authority of Kamchatka region. The loan was received for the purpose of Mutnovskaya GeoES construction. The loan is scheduled for repayment by 1 January 2035 through annual payments. An interest of 1 percent is charged on the outstanding amount of the loan. The debt is stated at present value, using a 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 amount of USD 60,000 thousand. The funds were obtained to finance construction of Cascade of Nizhne-Cherekskih HPPs. The loan bears interest at 10.5 percent per annum and is scheduled for repayment in February 2013.

Ministry of Railways of Russia. The loan from Ministry of railways was obtained in 2003 for construction of Bureiskaya HPP. The loan bears interest at 12 percent per annum and is scheduled for repayment in 2009.

Current debt

	Currency	Effective interest rate	31 December 2008	31 December 2007	31 December 2006
Ministry of Railways of Russia.....	RR	9.80%	471,269	—	—
OJSC Alfa-Bank.....	RR	8.50%-9.50%	5,000	550,000	117,733
OJSC Mezhtopenergobank.....	RR	11.00%-14.30%	—	157,840	2,643,313
OJSC AB Otkritie	RR	11.00%	—	138,000	—
Aluminium Group Ltd.....	RR	12.00%	—	—	966,562
Settimel Holding Ins.....	RR	12.00%	—	—	182,000
Other current debt.....	RR	—	241	4,071	81,391
Finance lease liabilities.....	RR	11.10%-20.00%	2,064,077	1,315,921	257,370
Current portion of non-current debt.....	RR	—	51,375	542,922	539,465
Interest payable	RR	—	573,640	469,281	398,342
Short-term derivative financial instruments – interest rate swaps	RR	—	211,299	—	—
Total current debt and current portion of non-current debt			3,376,901	3,178,035	5,186,176

During 2006 the Group obtained debt from Aluminium Group Ltd and Settimel Holding Ins, both RUSAL Group affiliates, to help to finance the construction of Boguchanskaya HPP, which was transferred to BoGES Group upon BEMA establishment in year 2007 (Note 2).

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Debt maturity

Due for repayment	31 December 2008	31 December 2007	31 December 2006
Between one and two years.....	240,340	479,849	500,000
Between two years and three years	5,000,000	—	471,269
Between three years and four years	323,448	5,000,000	—
Between four years and five years.....	4,762,825	174,923	5,000,000
After five years	8,670,381	12,894,393	9,953,260
Total	18,996,994	18,549,165	15,924,529

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 2008.....	2,257,339	1,164,960	77,480	3,499,779
Less future finance charges.....	(193,262)	(182,863)	(41,086)	(417,211)
Present value of minimum lease payments at 31 December 2008	2,064,077	982,097	36,394	3,082,568
Minimum lease payments at 31 December 2007.....	1,589,754	2,479,170	65,673	4,134,597
Less future finance charges.....	(273,833)	(226,523)	(28,353)	(528,709)
Present value of minimum lease payments at 31 December 2007	1,315,921	2,252,647	37,320	3,605,888
Minimum lease payments at 31 December 2006.....	293,683	500,867	8,011	802,561
Less future finance charges.....	(36,313)	(36,005)	(632)	(72,950)
Present value of minimum lease payments at 31 December 2006	257,370	464,862	7,379	729,611

Note 19. Other non-current liabilities

	31 December 2008	31 December 2007	31 December 2006
Pension obligations (Note 17).....	1,485,936	1,007,456	812,651
Other non-current liabilities	1,249,758	1,105,240	1,329,824
Total other non-current liabilities	2,735,694	2,112,696	2,142,475

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Note 20. Accounts payable and accruals

	31 December 2008	31 December 2007	31 December 2006
Trade payables	4,670,872	3,230,448	2,023,152
Advances received	1,432,390	1,461,980	913,090
Advances received from RAO UES of Russia.....	—	1,120,866	4,995,936
Accounts payable to RAO UES of Russia	—	6,650,594	300,000
Dividends payable (Note 15).....	20,972	28,073	1,057,781
Settlements with personnel.....	863,151	752,071	556,131
Accounts payable in respect of shares issued (Note 31)	6,000,000	—	—
Derivative financial instruments.....	49,557	—	—
Other accounts payable.....	3,202,964	1,944,473	1,433,147
Total accounts payable and accruals	16,239,906	15,188,505	11,279,237

Advances received from RAO UES of Russia. As at 31 December 2007 the Group had investment agreements with RAO UES of Russia to finance the construction of various HPP assets located in OJSC Zaramagskie HPPs, OJSC Zelenchukskie HPPs and OJSC Kabbalk HPP. These obligations were settled in 2008.

All accounts payable and accruals are denominated in Russian Rubles.

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 December 2008 comprises RR 28,063,258 thousand (31 December 2007: RR 27,247,616 thousand, 31 December 2006: RR 23,606,097 thousand) and includes, beside trade payables, non-current borrowings and current borrowings and current portion of non-current borrowings (Note 18).

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they have the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

Note 21. Other taxes payable

Other taxes payable represent the following:

	31 December 2008	31 December 2007	31 December 2006
Value added tax.....	3,168,708	451,443	359,456
Property tax.....	1,503,216	500,354	598,518
Unified social tax.....	235,378	183,968	127,586
Other taxes	302,442	243,954	296,264
Total other taxes payable.....	5,209,744	1,379,719	1,381,824

Note 22. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Sales of electricity (capacity)	102,673,904	76,494,284	48,405,245
Other revenue	4,995,877	4,262,187	5,031,090
Total revenue	107,669,781	80,756,471	53,436,335

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Note 23. Operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Purchased electricity (capacity)	34,661,041	26,574,491	16,120,068
Electricity distribution expenses	12,415,371	10,993,124	10,426,262
Depreciation of property, plant and equipment	9,332,702	8,457,485	4,292,271
Employee benefit expenses (including payroll taxes, share option plan expenses and pension expenses)....	8,132,100	6,181,839	4,708,856
Third parties services, including:			
Services of SO-CDU, NP ATS, CFR, RAO UES	2,416,695	2,494,939	2,951,860
Repairs and Maintenance	2,089,410	1,939,228	1,914,227
Services of subcontracting companies	1,369,382	1,134,817	557,877
Consulting, legal and information expenses	697,718	1,006,957	389,671
Insurance cost	601,284	515,442	323,770
Security expenses	552,455	475,268	200,172
Rent	526,132	510,519	534,323
Transportation expenses	330,396	278,239	191,157
Other third parties services	1,068,263	1,615,592	1,253,682
Taxes other than income tax	5,145,288	3,176,873	2,478,946
Other materials	1,366,978	1,323,953	1,250,193
Write-off and charge of impairment of accounts receivable	1,087,764	505,311	521,462
Water usage expenses	854,683	854,979	1,005,714
Social charges	327,690	584,180	297,232
Loss on disposals of property, plant and equipment, net	303,336	164,417	2,587,178
Other expenses	1,379,526	1,604,305	1,313,319
Total operating expenses	84,658,214	70,391,958	53,318,240

Loss on disposals of property, plant and equipment. Included within loss on disposals of property, plant and equipment in 2006 is a RR 2,335,351 thousand net loss which resulted from a disposal of construction in progress to OJSC Dagautodor. The disposed assets comprised of roads, bridges and other infrastructure under construction in the Republic of Dagestan.

Note 24. Finance cost, net

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	1,911,063	439,050	175,462
Interest expense	(1,825,088)	(1,727,106)	(864,002)
Finance lease expense	(533,716)	(410,195)	(43,225)
Loss on derivative financial instruments	(394,037)	—	—
Other expense	(653,038)	(126,568)	(84,444)
Finance cost, net	(1,494,816)	(1,824,819)	(816,209)

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Note 25. Earnings per share

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares issued (thousand of shares).....	215,648,425	148,502,176	124,027,549
(Loss)/profit attributable to the shareholders of the Company (in thousand RR).....	(19,955,433)	5,663,018	6,034,402
Weighted average earnings per share – basic and diluted* (in RR)	(0.0925)	0.0381	0.0487

* Share option programme of the Group (Note 6) has no dilutive effect for the periods presented.

Note 26. 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 S&P 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 balance sheet date, of foreign exchange forward contracts and interest rate swap contracts entered into by the Group:

	31 December 2008	
	Assets	Liabilities
Foreign exchange forwards: fair values, at the balance sheet date, of:		
– USD forwards.....	—	34,085
– Euros forwards	52,496	7,142
– CHF forwards.....	—	8,330
Interest rate swaps	54,664	451,639
Total.....	107,160	501,196
less non-current portion		
Interest rate swaps	—	240,340
Current portion.....	107,160	260,856

The full fair value of interest rate swaps is classified as other current assets (Note 14), current and non-current debt (Note 18). The full fair value of foreign exchange forwards is classified as other current assets (Note 14) and accounts payable and accruals (Note 20).

Note 27. Financial risks management

Financial risk factors. The Group activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, changes in interest rates and the collectibility of receivables. The Group does not have a risk policy in order to hedge its financial exposures.

Currency risk. Electric power produced by the Group is sold on the internal 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 activities do not considerably depend on currency rates

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as the Group activities 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 BoAZ at the rate of 50 percent (the remaining 50 percent are guaranteed by UC RUSAL) 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 project BEMA are expected not earlier than 2010, the Company's management took a decision to reduce foreign currency risk on the project BEMA (Note 26).

Except for these transactions, the influence of changes in the domestic currency rate as related to foreign currency rates on the financial condition of the Group is estimated as insignificant.

Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company obtains borrowings both with fixed and with floating rate and is subject to the risk of interest rate changes. The Group's significant interest bearing liabilities are disclosed in Note 18. The Company obtains loans in the national currency with floating rate, which are established on the basis of the MosPrime rate.

Sensitivity analyses of rates fluctuations for 2008, 2007 and 2006 years based on expected forecasts of rates changes at the date of redemption of exchange commitments indicate if the MosPrime rate increased by 0.5 percent the profit after tax would decrease by RR 29.6 million for the year ended 31 December 2008, 28.5 million for the year ended 31 December 2007 and by RR 8.0 million for the year ended 31 December 2006.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions;
- attraction of credit resources at rates lower than the refinancing rate of the Central Bank of the Russian Federation;
- diversification of credit portfolio by attracting of borrowings with fixed rates and floating rates;
- to avoid an uncontrolled increase of interest costs on the borrowings, the Group signed agreements to fix interest rates for interest payments in 2009 – interest rate swaps (Note 26).

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.

Although collection of receivables could be influenced by economic factors, management believes that there 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 assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position and its credit history. The Group monitors the existing receivables on the ongoing basis in the profile departments and takes actions regularly for their collection.

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 Board of Directors approved the list of banks for deposits, as well as rules for the placement of deposits. Moreover, the Company constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors.

The tables in Notes 10, 11 show deposits with banks and other financial institutions and their ratings at the balance sheet date.

Liquidity risk. 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 Company 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-

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term financial instruments, mainly bank deposits and bills of exchange. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Company has implemented a control system under its contract conclusion process by introduction and application of typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Company controls capital maturity.

The table below analyses the Group's financial liabilities (including interest accrued) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their discounted balances.

	Less than 1 year	Between and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2008				
Loans and borrowings (Note 18)	1,312,824	240,340	10,086,273	8,670,381
Accounts payable (Note 20)	4,670,872	—	—	—
At 31 December 2007				
Loans and borrowings (Note 18)	1,566,274	479,849	5,174,923	12,894,393
Promissory notes (Note 18)	295,840	—	—	—
Accounts payable (Note 20)	3,230,448	—	—	—
At 31 December 2006				
Loans and borrowings (Note 18)	2,285,493	500,000	5,471,269	9,953,260
Promissory notes (Note 18)	2,643,313	—	—	—
Accounts payable (Note 20)	2,023,152	—	—	—

Reconciliation of classes of financial instruments with measurement categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity; and (d) 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 as at 31 December 2008:

	Loans and receivables	Available-for-sale investments	Assets at fair value through the profit and loss	Total
ASSETS				
Other non-current assets (Note 10)				
Promissory notes and deposits	11,942,734	—	—	11,942,734
Long-term loans receivable	213,243	—	—	213,243
Available-for sale investments (Note 9).		2,011,215	—	2,011,215
Trade and other receivables (Note 12)				
Trade receivables	6,363,168	—	—	6,363,168
Promissory notes receivable	8,647,698	—	—	8,647,698
Other current assets (Note 14)				
Promissory notes and deposits	4,727,041	—	—	4,727,041
Derivative financial instruments	—	—	107,160	107,160
Cash and cash equivalents (Note 11)				
Cash and cash equivalents	24,837,862	—	—	24,837,862
TOTAL FINANCIAL ASSETS	56,731,746	2,011,215	107,160	58,850,121
NON-FINANCIAL ASSETS	—	—	—	367,520,978
TOTAL ASSETS	56,731,746	2,011,215	107,160	426,371,099

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The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007:

	Loans and receivables	Available-for-sale investments	Total
ASSETS			
Other non-current assets (Note 10)			
Long-term loans receivable	600,994	—	600,994
Available-for sale investments (Note 9)	—	102,504	102,504
Trade and other receivables (Note 12)			
Trade receivables	3,419,220	—	3,419,220
Promissory notes receivable	7,576,764	—	7,576,764
Other current assets (Note 14)			
Promissory notes	3,152,753	—	3,152,753
Cash and cash equivalents (Note 11)			
Cash and cash equivalents	8,266,748	—	8,266,748
TOTAL FINANCIAL ASSETS	23,016,479	102,504	23,118,983
NON-FINANCIAL ASSETS			290,427,378
TOTAL ASSETS	23,016,479	102,504	313,546,361

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2006:

	Loans and receivables	Available-for-sale investments	Total
ASSETS			
Other non-current assets (Note 10)			
Long-term loans receivable	531,250	—	531,250
Available-for sale investments (Note 9)	—	20,499	20,499
Trade and other receivables (Note 12)			
Trade receivables	1,618,638	—	1,618,638
Promissory notes receivable	7,974,284	—	7,974,284
Other current assets (Note 14)			
Promissory notes	424,329	—	424,329
Cash and cash equivalents (Note 11)			
Cash and cash equivalents	6,604,333	—	6,604,333
TOTAL FINANCIAL ASSETS	17,152,834	20,499	17,173,333
NON-FINANCIAL ASSETS			151,832,955
TOTAL ASSETS	17,152,834	20,499	169,006,288

Note 28. Capital risk management

Capital risk management relates to the compliance with the Russian legislation and credit policy implementation to maintain an optimal capital structure and reduce the cost of capital.

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 registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;

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- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2008 the Group 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as debt divided by total capital. Debt is calculated as total borrowings, as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet. Gearing ratios were 0.07 as at 31 December 2008, 0.10 and 0.17 as at 31 December 2007 and 2006, 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, and debt coverage by revenue. EBITDA equal to earnings before the deduction of interest expense and financing items, non-cash impairment and disposal charges, income taxes and depreciation.

The debt to EBITDA ratios were 0.73 as at 31 December 2008, 1.26 and 2.87 as at 31 December 2007 and 2006, respectively.

Interest payments coverage by EBITDA were 13.65 for year ended 31 December 2008, 8.94 and 8.29 for years ended 31 December 2007 and 2006, respectively.

Debt coverage by revenue were 0.22 as at 31 December 2008, 0.30 and 0.40 as at 31 December 2007 and 2006, respectively.

Note 29. Commitments

Social commitments. 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 it operates.

Capital commitments. In May 2006 RAO UES of Russia, the Company and RUSAL Group concluded an agreement on the mutual financing, construction and exploitation of Boguchanskaya HPP and the Boguchansky Aluminium Plant (Note 2). Both RusHydro Group and RUSAL Group have committed to finance the construction on the basis of mutual parity. The total investment to be contributed by the RusHydro and RUSAL Groups amounts to RR 132,123 million from 2008 to 2012 in accordance with the Company's investment programme. The Group contributed RR 15,071 million in 2008. The first line of Boguchanskaya HPP is planned to be put into operation in 2010.

Other future capital expenditures in accordance with contractual obligations amounted to RR 31,597,614 thousand at 31 December 2008, RR 7,595,548 thousand at 31 December 2007 and RR 8,375,467 thousand at 31 December 2006. The major part of future capital expenditures under contractual obligations as at 31 December 2008 are related to the following hydro power stations: Zagorskaya HAEPP-2 in the amount of RR 13,972,187 thousand, mainly due to the construction of the station, SShHPP in the amount of RR 5,575,516 thousand, mainly due to the construction of the coast spillway, Saratovskaya HPP in the amount of RR 3,647,691 thousand, mainly due to the supply of hydroturbines.

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Note 30. Contingencies

Political environment. The operations and earnings of 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. 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 activity 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. Recent events within the Russian Federation suggest that the 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 do not fully cover all the aspects of the Group reorganisation, there might be respective legal and tax risks.

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Due to completion of the Company's reorganisation in the form of the legal merger, the Company is a legal successor for litigations of the merged entities including those with tax authorities.

Environmental matters. 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 being reconsidered. 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.

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Guarantees. The Company provided certain counterparties with guarantees in respect to the following amounts of borrowings taken by the Group's related parties:

Name of counterparty	Debtor	Nature of relationship	31 December 2008	31 December 2007	31 December 2006
	CSJC Boguchansky Aluminium Plant	Joint venture			
Barclays Bank PLC			7,638,904	6,712,212	—
OJSC Bank of Moscow .	LLC IR Leasing	None	1,423,191	1,423,191	1,423,191
	OJSC Hanti-Mansiiskaya leasing company Otkritie	None			
OJSC Bank of Moscow .			491,370	491,370	491,370
	CSJC Boguchansky Aluminium Plant	Joint venture			
AREVA T&D S.A.....			1,374,122	—	—
SOLIOS Environment SA.....	CSJC Boguchansky Aluminium Plant	Joint venture	774,352	—	—
CJSC Commerzbank (Euroasia).....	CSJC Boguchansky Aluminium Plant	Joint venture	166,648	—	—
	CSJC Boguchansky Aluminium Plant	Joint venture			
BROCHOT SA.....			40,859	—	—
Societe des Technologies de l'Aluminium du Saguenay Inc	CSJC Boguchansky Aluminium Plant	Joint venture	18,569	—	—
Total.....			11,928,015	8,626,773	1,914,561

In March 2007 the Company issued a guarantee for a loan of USD 520 million raised by OJSC Boguchansky Aluminium Plant to finance BEMA (Note 2). The loan period is 3 years and the average interest rate is LIBOR + 0.825%. The managers and underwriters of the loan are ABN Amro, Barclays, Calyon and Sberbank of Russia. The raised borrowings are used for 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 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 2008 and a liability in the amount of RR 103 million was recognised.

The Group issued guarantees for two loans raised by OJSC Hanti-Mansiiskaya leasing company Otkritie and LLC IR Leasing to finance equipment purchases for the Group. The interest rate on the loans is 11%. The loans will be repaid in 2010 and 2009, respectively. Fair value of the guarantees was assessed as at 31 December 2008 and a liability in the amount of RR 58 million was recognised.

Remaining guarantees were issued to suppliers for future equipment's deliveries.

Note 31. Subsequent events

Additional share issues

At an extraordinary general meeting of shareholders on 17 November 2008 (the minutes N°2 dated 20 November 2008) the shareholders took a decision to increase the share capital of the Company by means of the placement of 10,000,000,000 additional personal ordinary shares with a par value of RR 1.00 each totaling RR 10,000,000 thousand through open subscription with a cash consideration. On 18 November 2008 (the minutes N°67 dated 20 November 2008) the Board of Directors approved the decision of the additional issuance of shares and determined a placement price of additional shares.

On 2 December 2008 the Federal Service for Financial Markets of Russia registered the additional issuance of 10,000,000,000 additional personal ordinary shares with N°1-01-55038-E-036D. The placement deadline was 20 February 2009 or a date of the placement of the last share, depending on which date was earlier.

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In December 2008 under the placement of shares the Russian Federation represented by Federal Agency for the Administration of State Property obtained 6,000,000,000 Company's shares using the preemptive right (Note 1).

On 23 January 2009 the Board of Directors approved the possibility to acquire 3,998,000,000 shares by the Russian Federation represented by Federal Agency for the Administration of State Property under this issuance of additional shares.

In February 2009 under the placement of shares the Russian Federation represented by Federal Agency for the Administration of State Property obtained 3,998,000,000 Company's shares.

The report on results of the additional issuance of shares of the Company was registered by Federal Service for Financial Markets of Russia on 19 March 2009, prior to the statutory registration the shares issued were recorded within accounts payable and accruals (Note 20). As a result of the placement of additional shares the total number of placed shares of the Company was 255,014,018,667 ordinary shares with a par value of RR 1.00 each.

The extraordinary general meeting of shareholders on 17 November 2008 (the minutes N°2 dated 20 November 2008) also took a decision to increase the share capital by means of the placement of 16,000,000,000 additional personal ordinary shares with a par value of RR 1.00 each totaling RR 16,000,000 thousand through open subscription with a cash consideration. At the meeting of the Board of directors on 11 March 2009 (the minutes N°73 dated 12 March 2009) the placement price of the additional shares with a par value of 1.00 each was determined and the decision to issue additional shares and the prospectus of shares of the Company. The state registration of the decision to issue additional shares and the prospectus of shares is planned in the second quarter of 2009.

Other

Federal Anti-Monopoly Service (the decision N°AG/1562 dated 21 January 2009) satisfied a request of OJSC INTER RAO UES concerning the acquisition of shares of OJSC WGC-1 in trust management including those owned by the Company. In February 2009 the Company's Board of Directors (the minutes N°72 dated 2 March 2009) approved an agreement of trust management of the rights on the shares of WGC-1 with OJSC INTER RAO UES. This agreement was signed on 12 March 2009.

On 23 January 2009 the Board of Directors of the Company approved an Investment Programme for 2009 in the total amount of RR 79,343 million. The Programme presumed 145 MW of generating capacity to be installed. On 9 April 2009 the Government of the Russian Federation revised the Investment Programme to 64,856 million and 74 MW of generating capacity to be installed.

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