



RusHydro

JSC RusHydro

ANNUAL FINANCIAL REPORT

2011

Chairman of the Management Board

A handwritten signature in blue ink, appearing to be 'Y.V. Dod', written in a cursive style.

Y.V. Dod

Chief Accountant

A handwritten signature in blue ink, appearing to be 'D.V. Finkel', written in a cursive style.

D.V. Finkel

Location: 51 Respubliki Street, Krasnoyarsk, the Krasnoyarsk Region, Russia, 660099
INN 2460066195 OGRN 1042401810494

Registration date: December 26, 2004

Zheleznodorozhsky Inspectorate of the Ministry of Taxation of the Russian Federation, Krasnoyarsk, Krasnoyarsk Krai

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RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

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

Chairman of the Management Board

E.V. Dod

Chief Accountant

D.V.Finkel

STATEMENT OF THE CHAIRMAN OF JSC RUSHYDRO'S BOARD OF DIRECTORS AND THE CHAIRMAN OF JSC RUSHYDRO'S MANAGEMENT BOARD

Dear shareholders,

Last year marked a period of drastic changes for RusHydro. The Company achieved a breakthrough increase in production capacity: the controlling stake in JSC RAO ES of the East enhanced the Company's installed capacity by one-third to 35.2 GW (from 21.6 GW). The efficient renovation of the Sayano-Shushenskaya HPP brought its power generation to the pre-accident level; and the acquisition of International Energy Corporation (Armenia) enabled the Company to compete on a global scale.

In 2011, total power generation by RusHydro power plants was 77 052 kWh, a 7% increase from the previous year. During the reporting year, output also increased 7.1% to reach 75 732 kWh. Important progress was made by the Company's generation units, which managed to boost generating performance, despite a continued low water period in Russian rivers.

The growth in energy generation enabled RusHydro to improve its financial results. In 2011, the Company's profit increased to RUR 29,493 million from RUR 10,399 million in the previous year according to IFRS reporting.

Following the August 2009 accident, the advanced restoration of the Sayano-Shushenskaya HPP, a Russian energy sector flagship, continued to be the Company's top priority during the reporting year.

In 2011, RusHydro launched the second restoration phase to install 10 brand new hydro-power units in the turbine room. The four units commissioned in 2010 following repair work will be also replaced by new ones.

The first new hydro-power unit (Unit No. 1) was commissioned December 19th, 2011; the HPP will commission three new units per year during the 2012-2014 period.

As a result, the Sayano-Shushenskaya HPP will be completely fitted with state-of-the-art equipment that complies with all reliability and safety requirements by 2014.

Along with renovating the Sayano-Shushenskaya HPP equipment, the Company continued constructing the coastal spillway. This sophisticated hydro-power structure, which ensures the maximum HPP operational safety level, was commissioned October 12th, 2011.

The progress made in 2011 underlies further growth. As early as this year, the Company will reach its record high level for commissioning new facilities of more than 4 GW. This includes the Boguchanskaya HPP, the Zagorskaya PSHPP-2 and the Ust-Srednekanskaya HPP. RusHydro's plans, however, are not limited to the above. In 2013, the Company plans to complete construction of the 100 MW Gotzalinskaya HPP in Dagestan. The 342 MW Zamaragskaya HPP-1 will be launched in 2015. In total, the Company plans to commission 10.4 GW by 2015. The Russian hydro-power industry has not seen these growth rates before.

The Company's growth is based on seamless operations at all facilities. Therefore, technical upgrades of our power plants remains our principal focus. Last year, we approved the Comprehensive Modernization Program which aims to replace up to 50% of the total turbine fleet by 2025.

RusHydro uses the best global practices to renew fixed assets. The Company works together with Alstom (France) to carry out comprehensive renovation of the Cascade of Kubansky HPPs. A joint project with Voith Hydro (Germany) involves modernizing the Saratovskaya and Miatlinskaya power plants. Converting to more sophisticated technologies will enable installed capacity growth to 1 GW.

To implement its plans, the Company has to unite the efforts of different organizations, from research and design institutes to operating and construction companies. In this context, RusHydro is focused on developing its own engineering and research competencies. In 2011, the Company completed establishing its unique research and design facilities which include three design institutes – Hydroproject, Lenhydroproject and Mosoblihydroproject – and two research institutes – Vedeneyev VNIIG and NIIES. Today, the Company consolidates all Russia's existing research and design organizations operating in the hydro-power sector and efficiently employs their extensive expertise and research potential.

Last year, RusHydro approved the Innovation Development Program, which has essentially expanded R&D and innovation project costs vis-à-vis previous years. Compared with 2010, R&D costs in 2011 were 10 times higher.

This increased attention on sophisticated technologies will encourage RusHydro's leading position in the alternative energy sector. The Company, in particular, is focused on developing its geo-thermal competencies. Currently, we are completing the construction of an experimental binary unit at the 2.5 MW Pauzhetskaya GeoPP in Kamchatka. The Company has developed an investment feasibility study for the project to increase the Mutnovskaya GeoPP's installed capacity by 13 MW.

The underlying driver of RusHydro's strategy to develop Far East energy sector includes not only energy-efficient innovative technologies. We are also relying on the essential synergy effect gained from the cooperation by JSC RAO ES of the East with other Far East companies which controlling stakes and interests were acquired by RusHydro in the reporting year. Please note that the above-mentioned acquisitions not only increased RusHydro's installed capacity by almost 9 GW, but also made the Company the largest player on Russia's Far Eastern energy market.

Due to the combination of the above-mentioned factors, RusHydro is widely regarded as the blue chip Russian energy company with the best liquidity in the sector. The Company's securities are traded on the largest trading platforms globally, including the London Stock Exchange. In 2011, Platts agency recognized RusHydro as Russia's fastest growing energy company and placed it fifth on the global Platts-50 list. These results underscore the Company's advanced capitalization prospects.

A high level of corporate governance continues to be one of the Company's top competitive advantages. RusHydro's management works closely with shareholders and the Board of Directors. During the reporting period, the Company held 24 meetings of the Board of Directors, addressing key strategic corporate growth issues. The Board's decisions included approving the 2012-2025 Comprehensive Modernization Program for RusHydro's Generation Facilities and the 2011-2015 Innovation Development Program with an outlook till 2021.

The joint work is based on principles of transparency, responsibility, accountability, good faith and fairness. Due to the Company's commitment to the above-mentioned principles, the Consortium of Russian Institute of Directors and Expert RA rating agency increased the Company's National Corporate Governance Rating to 7+, which is among the highest ratings assigned to a domestic company.

Today, the Russian energy industry in general and RusHydro in particular face new challenges. Without slowing our growth rates, we have to meet objectives related to constructing, commissioning and modernizing the Company's facilities, continue to enhance their reliable operation and ensure further growth in our production and financial performance. As before, the management and the Board of

Directors will be focused on the interests of all shareholders, irrespective of the number of shares that they hold. This joint work will strengthen our leading position in the energy sector and ensure continuous growth in the Company's value.

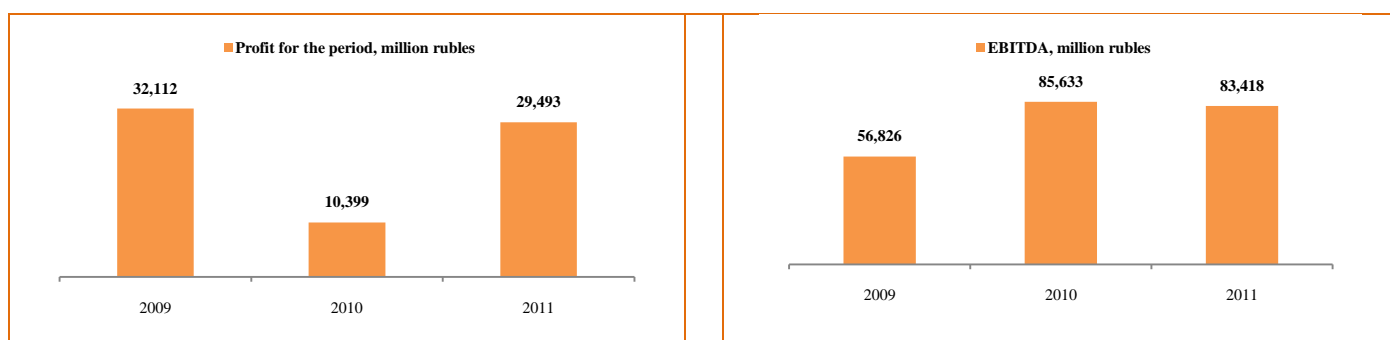
Sincerely,

Vladimir Tatsiy

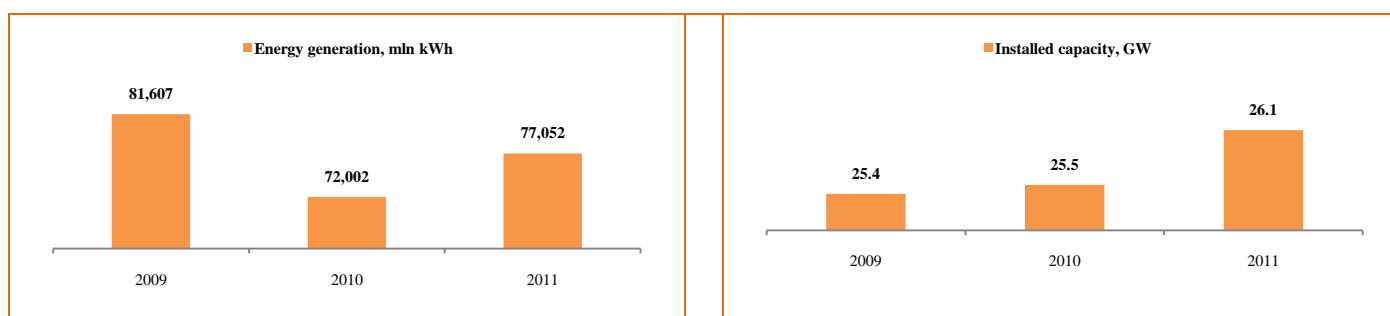
Yevgeny Dod

KEY COMPANY PERFORMANCE INDICATORS

Financial Performance¹



Production Performance²

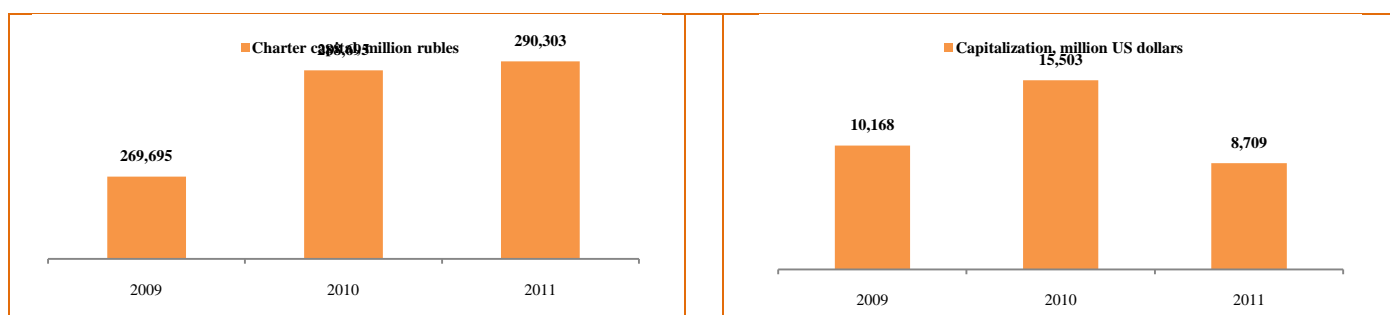


*including JSC Geoterm, JSC Kolymaenergo, JSC Pauzhetskaya GeoPP and JSC MEC

Credit Rating

Rating Agency	Fitch Ratings	Standard & Poor's	Moody's
International rating	BB+	BB+	Ba1
National rating	AA (rus)	ruAA+	Aa1.ru
Outlook	Positive	Stable	Stable

Cartier Capital and Capitalization



¹ Figures under IFRS

² Figures for RusHydro Group

ABOUT THE COMPANY

Mission

RusHydro's mission is to effectively utilize hydro resources, to create conditions required for reliable performance of Russia's Unified Energy System (UES) and to enhance renewable energy source (RES) usage to benefit the Company's shareholders and society as a whole.

History

2004	2005-2008	2007	2008	2009	2010	2011
<ul style="list-style-type: none">Company created under Russian Government Decree No. 1254-r (dated 01.09.2003)	<ul style="list-style-type: none">Hydro-power generation assets of the re-organized OJSC RAO UES of Russia holding united	<ul style="list-style-type: none">The Russian Federation becomes one of the Company's shareholders via an additional share issue	<ul style="list-style-type: none">The Company's shares are listed on the Russian stock marketA depositary receipt (DR) program is launched	<ul style="list-style-type: none">Depositary receipts (DRs) listed on the London Stock Exchange (LSE)	<ul style="list-style-type: none">Completion of the first stage of restoration at the Sayano-Shushenskaya HPPCompletion of the Kashkhatau HPP and the Egorlykская HPP-2 constructionConsolidation of existing hydro-power assets in Siberia	<ul style="list-style-type: none">Acquisitions of assets in Russia's Far East

The Company Today

RusHydro is Russia's largest generating company by installed capacity and the leader in renewable energy using water currents, sea tides, wind and geo-thermal energy.

The installed capacity of the Company's power plants is 26.1³ GW and 35.2 GW including JSC RAO ES of the East, JSC Pavlodolskaya HPP and JSC KamGEK. The total thermal capacity is 16,168 Gcal/h.

The Company unites more than 70 renewable energy source facilities, including:

- ❖ The Sayano-Shushenskaya HPP (Russia's largest HPP);
- ❖ Nine HPPs of the Volzhskaya-Kamskaya Cascade;
- ❖ The Zeyskaya HPP;
- ❖ The Bureyskaya HPP;
- ❖ The Novosibirskaya HPP;
- ❖ HPPs in the North Caucasus Region;
- ❖ Geo-thermal plants in Kamchatka;
- ❖ The Zagorskaya Pumped Storage Power Plant (PSPP) in the Moscow Region;
- ❖ The Cascade of the Sevano-Razdansky HPPs in the Republic of Armenia.

The Company is developing renewable energy source (RES) projects. These projects utilize sea tides, geo-thermal energy and small HPPs, including:

- ❖ Construction of the Severnaya Tidal Power Plant in the Murmansk Region;
- ❖ Construction of a binary power unit at the Pauzhetskaya GeoPP;
- ❖ An increase in installed capacity at Mutnovskaya GeoPP by using secondary heat.

RusHydro Group unites R&D and design and engineering facilities, as well as retail energy companies.

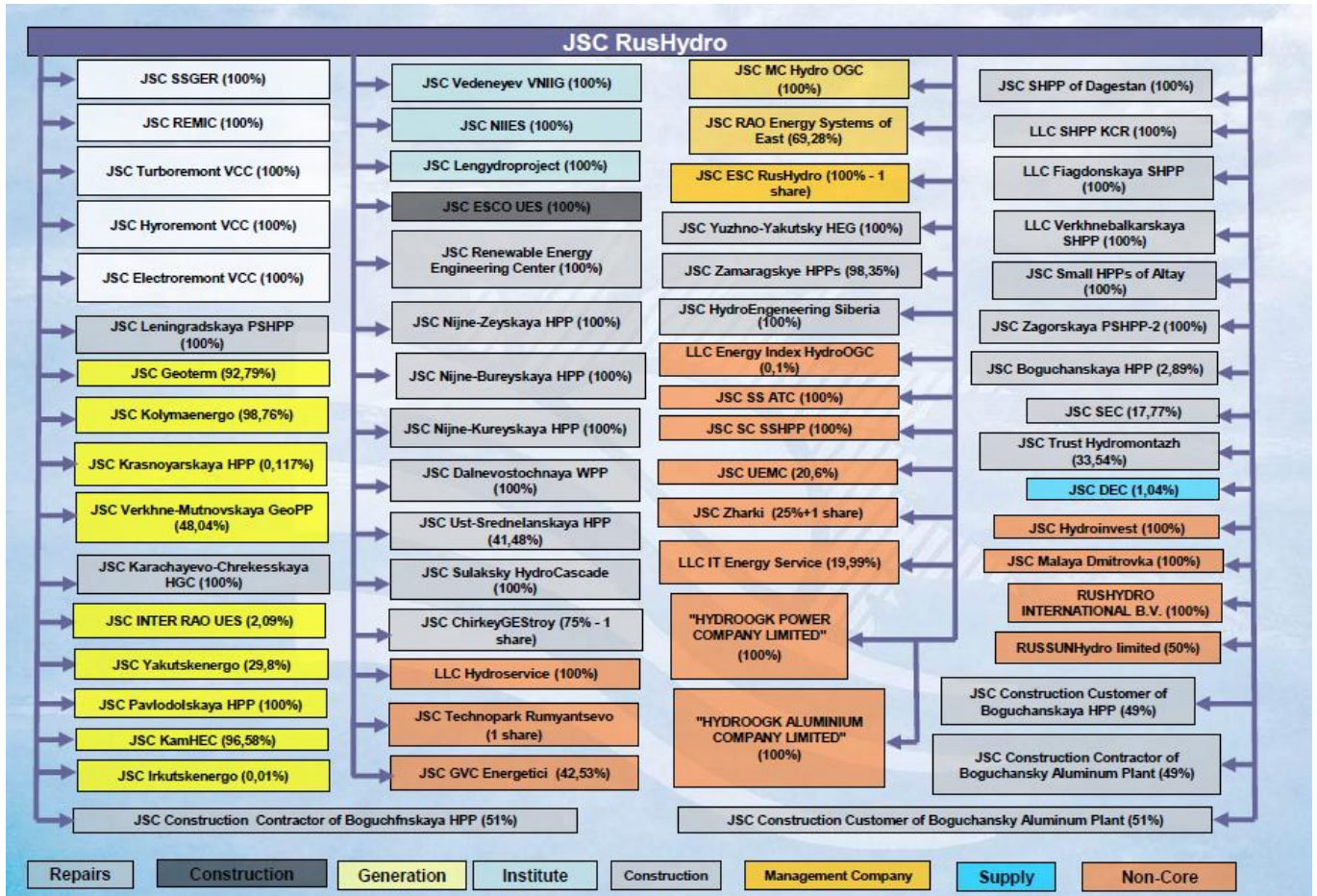
Power sales assets are consolidated within RusHydro's subsidiary, JSC ESK RusHydro. The sales sector of RusHydro includes guaranteeing suppliers: LLC Energy Supply Company Bashkortostan; JSC Krasnoyarskenerosbyt; JSC Ryazan Energy Supply Company and JSC Chuvaskaya Energy Supply Company.

The Company has high-profile investment projects in various Russian regions. The largest of the new HPP construction projects include:

- ❖ The Boguchanskaya HPP (in conjunction with RUSAL) on the Angara River in the Krasnoyarsk Region;
- ❖ The second stage of the Zamaragskye HPPs on the Ardon River in the Republic North Ossetia-Alania;

³ including JSC Geoterm, JSC Kolymaenergo, JSC Pauzhetskaya GeoPP and JSC MEC.

JSC PARTICIPATION IN OTHER ORGANIZATIONS



KEY 2011 EVENTS

JANUARY

01	Energy supply to the new Kashkhatau HPP to the Russian Unified Energy System began
13	Permission for placing and organizing trading of 50% of the additional issue under State registration number 1-01-55038-E-039D (from 02.12.2010) outside the Russian Federation was granted
18	RusHydro and JSC Power Machines signed a contract to manufacture and supply equipment for the Baksan HPP
19	Tests of the main sites for two unique horizontal bulb units of the Saratov HPP were completed. The design will increase capacity, upgrade water usage efficiency and reduce environmental impact
27	An Energy-efficient Technologies Center, which promotes energy conservation and an energy-efficient lifestyle, was opened in Ryazan
27	Preliminary results for RusHydro Group 2010 production activities were published
28	RusHydro and the Municipal Administration of the Dmitrovsky District, the Moscow Region, signed an agreement on energy conservation and energy efficient cooperation.
28	Controlled operations of hydro-power unit No. 3 at the Sayano-Shushenskaya HPP was completed. This is the fourth hydro-power unit to be re-launched after the accident

FEBRUARY

07	The launch of the Company's employee stock option plan, in the amount of 3,178 bln shares, was announced
18	An agreement to develop hydro-power potential and the Krasnoyarsk Region economy was signed
18	The Center for Energy Efficiency was established in Krasnoyarsk. The Center's priority is to promote modern technologies and energy-saving methods, as well as energy efficiency among residential and industrial consumers and utility companies

MARCH

01	Company's ruble Eurobond offer in October 2010 was rated by EMEA Finance the best among CEE companies in 2010.
03	The Board of Directors adopted as a basis a comprehensive program to modernize JSC RusHydro's generation facilities till 2025, which would optimize activities of the modernization and reconstruction program to accelerate modernization of the generating equipment and automation of manufacturing processes
04	The acquisition of shares of the Krasnoyarskaya HPP was completed and RusHydro Group's share in charter capital increased to 25.116%
18	The Company's 2011-2015 Business Plan was approved. Under the Plan, the values of the Company's annual and quarterly key performance indicators (KPIs), quarterly financial and assimilation of the 2011 CAPEX plan and the 2011-2013 cost control program were approved
23	The Company's 2010 audited financial statements, prepared in accordance with Russian Accounting Standards (RAS), were published
24	A deal to purchase 90% of shares in CJSC International Energy Corporation (IEC) was completed. The core asset of IEC is the Sevan-Hrazdan HPP Cascade in Armenia
24	The Board of Directors approved transactions for exchanging shares in JSC OGK-1 to shares of the additional issue of JSC INTER RAO UES

APRIL

01	The placement of the additional issue of ordinary shares under State registration number 1-01-55038-E-039D (from 02.12.2010) was completed. In total, 1.6 billion shares were placed, representing 86.41% of the total number of additional shares
07	Installed capacity of the Volga HPP increased 5 MW, due to implementation of the program to modernize and reconstruct the HPP
13	The thermal circuit was installed above hydro-power units for the start-up complex of the Boguchanskaya HPP. This is an important step in HPP construction
25	The placement of Series 01 and 02 bonds in the amount of 15 billion rubles was successfully completed. Placement was at comparable levels to traded bonds of first-tier issuers with investment grade ratings
27	Audited 2010 financials, prepared in accordance with International Financial Reporting Standards (IFRS), were published for the RusHydro Group
29	The Company's Q1 2011 financial results, prepared in accordance with Russian Accounting Standards (RAS), were published

MAY

10	The reconstruction stage for the oldest HPPs of the Volga-Kama Cascade was completed. At the Uglichskaya HPP, a new hydro-power unit (number 2) was put into operation
17	RusHydro and Alstom Hydro France, LLC Alstom and JSC HST signed the primary contract for the comprehensive reconstruction and modernization of the Cascade of Kuban HPPs
23	The 2011 charitable and sponsorship activities program, valued at 500 million rubles, was approved
27	Shares of the additional issue under State registration number 1-01-55038-E-039D (from 02.12.2010) were listed on the "A" quotation list of the MICEX Stock Exchange
27	Amendments to the charter relating to the Company's increase in charter capital were registered
31	New parameters for the investment component in 2011 power tariffs were defined

JUNE

14	Hydro-power unit number 1 at the Irganayskaya HPP was put into commercial operation
15	RusHydro and the Reykjavik Geothermal Company signed a cooperation agreement and defined basic cooperation terms for geo-thermal energy
17	RusHydro and Voith Hydro signed documents on cooperation and commercial contracts. The aggregate investment of the parties will be more than 1 billion euros
21	RusHydro Group and Alstom signed a SHA on forming a joint venture to manufacture hydro-power and auxiliary equipment in Russia
30	An energy efficiency center was opened in Krasnoyarsk
30	The Company held its 2010 Annual General Meeting of Shareholders, which adopted the annual report and annual financial statements, made a decision to pay dividends for 2010 and increase the charter capital, approved the restated Charter and a new version of the Regulation on the Procedure for Convening and Holding Meetings of the Board of Directors and also approved interested-party transactions

JULY

08	Hydro-power unit number 2 at the Irganayskaya HPP was put into commercial operation
15	RusHydro and the Russian Ministry of Agriculture and the Government of the Stavropol Region signed an agreement on land reclamation cooperation
15	JSC RusHydro was recognized as having the best investor relations in the energy sector by "Thomson Reuters Extel Europe-2011" and the specialized magazine "IR Magazine Russia & CIS." In the same survey, Yevgeny Dod, the Company's Chairman of the Management Board, was named one of the top three top managers for the CIS' largest companies
18	JSC Boguchanskaya HPP obtained the status of wholesale market participant, which will allow it (once it is in operation) to sell electricity and power on the wholesale market
18	JSC RusHydro and JSC SO UES concluded the agreement on reactive power regulation with no energy generation.
29	The Board of Directors of the Company approved a decision on the additional issue of ordinary shares and the Company's issue prospectus. At par value, the issue totaled RUR 89 billion

AUGUST

02	The Company's H1 2011 financial results, prepared in accordance with Russian Accounting Standards (RAS), were published
02	New version of the 2011-2015 Innovative Development Program (with the outlook for 2021) was approved
16	An additional share issue of 89 billion rubles placed via open subscription was registered. It has a State registration number of 1-01-55038-E-040D
30	The 2010 payment of dividends on ordinary shares was completed. The total dividends paid were 2.5 billion rubles
30	The Board of Directors approved borrowing up to 40 billion rubles to implement strategy to expand the Company's business via the acquisition of energy assets

SEPTEMBER

02	The Company's new Technical policy was approved. Policy implementation will create a new modernization process level for industrial and technological assets
05	The placement of the additional share issue under State registration number 1-01-55038-E-040D (from 08.16.2011) began
12	Fitch confirmed the Company's long-term BB+ credit rating and its positive outlook
12	RusHydro completed transaction to acquire 100% share capital of LLC Energy Supply Company of Bashkortostan (LLC ESCB) from JSC Bashkirenergo
26	The Kolyma river was closed at the Ust-Srednekamskaya HPP site under construction.

OCTOBER

04	The H1 2011 financial results for the RusHydro Group, in accordance with International Financial Reporting Standards (IFRS), were published
03-04	In accordance with the Government Order, RusHydro contributed 5 dams of the Cascade of Angarsky HPPs to its share capital as payment for its additional share issue
12	Within the framework of implementing the investment project to reconstruct the Sayano-Shushenskaya HPP, RusHydro and the Government of the Republic of Khakassia signed a cooperation agreement. Total project CAPEX will be approximately 45 billion rubles
12	The shore spillway of the Sayano-Shushenskaya HPP was commissioned
24	A coupon on Series 01 and 02 bonds, totaling 598 million rubles, was paid
31	The Company's 9M 2011 financial results, prepared in accordance with Russian Accounting Standards (RAS), were published

NOVEMBER

03	JSC RusHydro was mentioned as top Russia's fastest-growing energy companies, according to Platts Agency, which is a leading global energy and metals information provider; the Company also ranked fifth in Platts' list of the top 50 global energy companies
07	The results of the purchase of additional shares (State registration number 1-01-55038-E-040D (from 16.08.2011)) by the Company's shareholders, as a result of exercising their pre-emptive rights under which shareholders acquired 29.7% or 26.4 billion shares, were summarized The execution of its preemptive right resulted in acquisition of interest in several companies, including RAO ES of the East and the dam on the Angara River.
10	The Company obtained a passport of readiness for the 2011-2012 autumn-winter period
16	A ceremonial laying of the first cubic meter of concrete in the foundation of the Barsuchkovsky Small HPP (in the Stavropol Region) was held, with the participation of the Russian Deputy Prime Minister I.I.Sechin
22	The charitable program recognized as the winner in the annual All-Russian project "2011 leaders in Russian corporate philanthropy" was JSC RusHydro's "Sail of Hope" program

DECEMBER

01	By replacing the hydro-power unit with a more powerful one, installed capacity at the Uglichskaya HPP increased 10 MW. The general contractor was Voith Hydro (an Austrian company)
05	The 2012-2015 Comprehensive program for upgrading the Group's generating facilities was adopted. As part of the program, RusHydro will replace up to 50% of total turbines, 40% of generators and 60% of transformers at its HPPs
16	The consortium of the Russian Institute of Directors and Expert RA raised the Company's corporate governance rating to 7+, which corresponds with "developed corporate governance practices"
19	RusHydro and the Austrian company Voith Hydro signed a contract for the supply of impellers to modernize hydro-power turbines at the Miatlynskaya HPP in the Company's Dagestan branch
19	With the participation of Russian Prime Minister Vladimir Putin, hydro-power unit No. 1 at the Sayano-Shushenskaya HPP was put into operation
19	RusHydro and the Government of the Republic of Khakassia signed a contract under which the Company will receive State support in the form of tax breaks for the investment project "Restoration of the Sayano-Shushenskaya HPP"
19	The 2012 Insurance coverage program was adopted
28	For 2011, electric power output at the Sayano-Shushenskaya HPP was more than 18 billion kWh and reached the pre-accident capacity utilization level

EVENTS AFTER THE REPORTING DATE

	The Company approved its 2012 growth priorities
	The Company signed a memorandum on cooperation with the Government of the Krasnoyarsk Region to construct the Nizhne-Kureyskaya HPP, with an installed capacity of 150 MW
	The Company completed drilling a development well at the Mutnovskoye Field. Commissioning this field will enhance the capacity of the Mutnovsky GeoPP by engaging additional capacities of the geo-thermal heating agent
	The Company commissioned the new hydro-unit No. 7 at the Sayano-Shushenskaya HPP

THE COMPANY'S STRATEGY

RusHydro's Strategy

The Strategic Plan till 2015 and future development till 2020, as approved by the Company's Board of Directors in 2010, outlines a wide range of strategic areas for corporate development.

Strategic Aims:

- ❖ To upgrade energy efficiency by fostering sustainable development of power generation based on RES;
- ❖ To ensure the reliable and safe performance of the Company's facilities;
- ❖ To increase the Company's value.

For the 2020 horizon year,

JSC RusHydro is a global transnational vertically integrated holding company and world's leader in RES development

The Company boasts unique advantages that leave it well-positioned to strengthen its growth and enhance its role both domestically and abroad:

- ❖ Clean power generation: the renewable nature and environmental friendliness of sources used in production;
- ❖ Energy efficient production: hydro-power guarantees the reduced dependence of Russian electricity costs on organic fuel, as this power generation has no fuel component;
- ❖ Basis for system reliability: HPPs perform system-forming functions, alongside functions of immediate (highly maneuverable capacities) and strategic reserves for power production and the guaranteed reliable performance of the unified energy system (HPPs with long-term storage reservoirs);
- ❖ Driver of renewable energy innovation: a priority focus on technical upgrades, which promote R&D and the practical implementation of new power generation technologies utilizing RES;
- ❖ State-of-the-art management with extensive experience in creating and managing hydro-power assets, including the foreign markets.

The Company will make a difference in:

- ❖ A multi-focused engineering complex capable of driving highly effective competitive RES development, both in Russia and abroad;
- ❖ An established retail power sales business that ensures high quality service and undisrupted consumer supply;
- ❖ Equipment and supply manufacturers within the Company, alongside major energy-intensive consumers;
- ❖ A balanced business portfolio that builds the Company's maximum value;
- ❖ Fast rates for introducing innovations – across technical and technological solutions, as well as management systems.

The Company is the State's key agent in implementing hydro-power development projects in accordance with Russia's Energy Strategy for the Period till 2030 and is also a consolidation platform for the Russian hydro-power industry.

Strategic activities of the Company's management team are focused in numerous key areas:

Hydro-power generation

The guaranteed reliability and renovation of existing assets is a key task for hydro-power generation and will primarily be addressed via technical upgrades and reconstruction programs, restoration of the Company's Sayano-Shushenskaya HPP and construction of the second stage of the coastal spillway, as well as creation of a service center for HPP monitoring and maintenance, switching over to long-term contracts for equipment maintenance and delivery and the rapid introduction of innovations. At the same time, the Company plans to undertake active measures to optimize HPP operating modes and to increase electricity and power sales from its operating assets. The Company's hydro-power generation assets will be expanded by launching new capacities at hydro-power plants (HPPs) and pumped storage power plants (PSPPs), as well as by gaining control/acquiring shareholdings in hydro-power generation companies.

Engineering and R&D

Key engineering tasks include: upgrading R&D competencies; creating a full-service EPC(M) sub-contractor in the hydro-power industry (holding a competitive edge in foreign markets); optimizing design timeframes, upgrading the quality of project solutions and reducing construction costs and timeframes for new corporate facilities.

RusHydro also plans to achieve a marked efficiency improvement in repair and maintenance services offered to corporate assets by developing and introducing a target model for repair and maintenance organizations and by switching over to long-term partnerships with repair service providers.

Retail power sales business

Key activities in this area include: enhancing the Company's presence and sales across retail electricity markets, driven by acquiring shares in retail power sales companies, as well as by maintaining and expanding the customer base and attracting new large consumers.

One of JSC RusHydro's priorities in this sphere is to form on the basis of JSC ESK RusHydro (a 100%-owned subsidiary of the Company) retail power sales companies providing integrated services in power supplies, power savings, public utilities and other services (multi-utility companies).

Innovations and energy efficiency

An effective system for managing and developing innovations with a strong upside potential, including those outlined in Russia's Energy Strategy till 2030, will deliver greater competitive advantages to RusHydro and drive additional successful corporate evolution. Key measures in this sphere include: creating a program for innovation-based development, establishing an innovation R&D center; creating a scientific center for upgrading design and construction technology; developing engineering foresight and monitoring systems for new technologies and innovations; and creating a knowledge management system.

Renewable energy

A key measure that underpins Russia's effective RES development is creating normative documentation aimed that provides incentives for RES usage. In conjunction with this, special activities to promote corporate technological and technical conditions that contribute to RES development are required to drive large-scale construction of small hydro-power plants (HPPs), wind power plants (WPPs), geo-thermal power plants (GeoPPs), bio-fuel-based energy facilities and tidal power plant projects using the most sophisticated foreign technologies in this field.

International activities

In accordance with foreign energy policy targets outlined by Russia's Energy Strategy till 2030, the Russian hydro-power industry will be integrated into the global energy market. In the medium-term, RusHydro plans to implement integrated infrastructure investment projects abroad, provide hydro-power asset management services and engineering and hydro-power maintenance services; promote bi-lateral cooperation with foreign electricity, design, engineering and power machine building companies and set up experience exchange cooperation to introduce hydro-power and RES innovations and new technologies.

Hydro-economic complex

RusHydro's expanded operations in the hydro-economic sector can open up new corporate opportunities and introduce a range of synergistic benefits with key corporate businesses. In line with this, RusHydro will study possibilities for entering the respective markets via pilot projects.

Human resources

RusHydro sees human resources development (across all its businesses) as a strategic avenue. In order to ensure adequate long-, mid- and short-term human resources, the Company has implemented growth programs aimed at early professional training and additional education of schoolchildren to encourage their engineering competencies, establishing the system of target training in educational institutions, restoring the resource of workers with secondary technical education and reinforcing relationships with industry-related higher education establishments and research institutes.

Progress across main development areas is illustrated by the following target indicators

Strategic indicator	2015 target
Reliability criteria compliance	No accidents
Launch of new HPP capacities and the capacities of acquired/managed hydro-power assets	10 GW
Launch of RES capacities	approx. 140 MW
Total installed RES capacity currently in the design document development stage	500 MW at small HPPs, 1,000 MW at WPPs
Annual electricity output	113 billion kWh

Top Growth Priorities of Company

The Board of Directors annually approves Growth Priorities which are one of the tools to implement JSC RusHydro's Strategic Plan and include the list of key objectives and events viewed as priorities on the annual horizon.

The 2011 List of Growth Priorities approved by the Board of Directors on February 24, 2011 (Minutes No. 118) covers the objectives aimed at ensuring reliability and safety of operating hydropower facilities, implementing investment projects, M&A projects and innovation development program, boosting energy efficiency, developing engineering, research and water facilities of JSC RusHydro and expand the operation of renewable energy sources.

On February 29, 2012, the Board of Directors approved the report on meeting the 2011 Growth Priorities of the Company (Minutes No. 144).

Integration of JSC RAO ES of the East

As part of the Company's strategy and in accordance with Russian Government Decree № 1174-r (from July 7th, 2011), shares of JSC RAO ES of the East which belonged to the Russian Federation were transferred in payment for additional shares of JSC RusHydro in October 2011. Thus, as of December 31st, 2011, the Company's share in JSC RAO ES of the East was 69.3160%. The transfer of a controlling interest in JSC RAO ES of the East to the property of RusHydro will provide a systematic and comprehensive approach to developing and upgrading power generation in Siberia and the Far East, improving energy security and electricity supply reliability.

Prior to becoming a part of JSC RusHydro, the investment plans of JSC RAO ES of the East were limited to maintaining existing power facilities. Basic problems associated with the functioning Unified Energy System of the East (UES of the East) could not be resolved due to suffering from a chronic lack of funding for modernization and the construction of energy infrastructure. These problems were associated with:

- ❖ Insufficient development of the main electrical network, lack of a reliable consumer power supply system and the poor state of the electrical network;
- ❖ A long length of grids from east to west performed in a single circuit;
- ❖ The inability to achieve full carrying power of the grids, under terms of static power transmission stability;
- ❖ Availability of "trapped" power in power plants;
- ❖ The isolated work of regional power systems of UES of the East led to the need for increased capacity reserve and the use of a large number of expensive diesel fuel power plants;
- ❖ The high cost and complexity of fuel delivery for power plants running on imported fuel oil and diesel fuel.

Due to these factors, there were high rates for consumers, including residential consumers. Currently, UES of the East's HPPs are not used because it is necessary to utilize existing thermal power plants operating in the basic mode. By combining HPPs and thermal power plants into a single control loop, it becomes possible to implement staged organizational and technical measures to replace inefficient production capacities with efficient power generation.

Capacity utilization of the UES of the East HPPs, coupled with reducing power generation at the inefficient thermal power plants of RAO ES of the East, including the flux transfer of up to 6.5-7.9 billion kWh to existing and under construction HPPs in the Amur and Magadan Regions, lead to tariff reductions of 5.2-7.0% for end consumers for the period till 2020. Single control and capacity utilization optimization will gradually disintegrate worn-out inefficient thermal power plants.

Furthermore, the tariff burden on the Region's consumers can be reduced by selling unclaimed surplus electricity from the domestic market on external Northeast Asian (NEA) markets. In conjunction with energy consumption growth in China and Japan and as a part of attracting strategic equity investors for JSC RusHydro, one of Russia's strategic goals is to build new effective generating capacity in the Far East and to create modern export energy bridges.

The cross-border export of electricity and capacities of the HPPs of the UES of the East is undertaken via the export contract operator - JSC INTER RAO UES (JSC Eastern Energy Company).

In the case of an increased volume of cross-border exports by UES of the East, electricity and capacity exports from the Bureyskaya and Zeiskaya HPPs, located in the Amur Region, can be assured availability for up to 400 MW.

In implementing the investment projects on construction of the Nyzhne Bureyskaya HPP(320 MW) and Nyzhne Zeiskaya HPP (400 MW) in the Amur Region, the volume of electricity and capacity export if unclaimed in the domestic market, can be increased in power output to about 200 MW.

Based on existing balance conditions for UES of the East, it will be possible to export up to 2 GW (10 billion kWh), resulting in a regional tariff reduction of up to 3%.

Therefore, based on redistributing capacity utilization and optimizing capacity installations, the total potential effect on the final electricity tariff will be up to 11-18%.

A 14-21% potential can be realized by optimizing management costs and reducing tariffs for end consumers in the Far East In monetary terms, the economic effect will be approximately 27 billion rubles.

Achieving Strategic Advantages

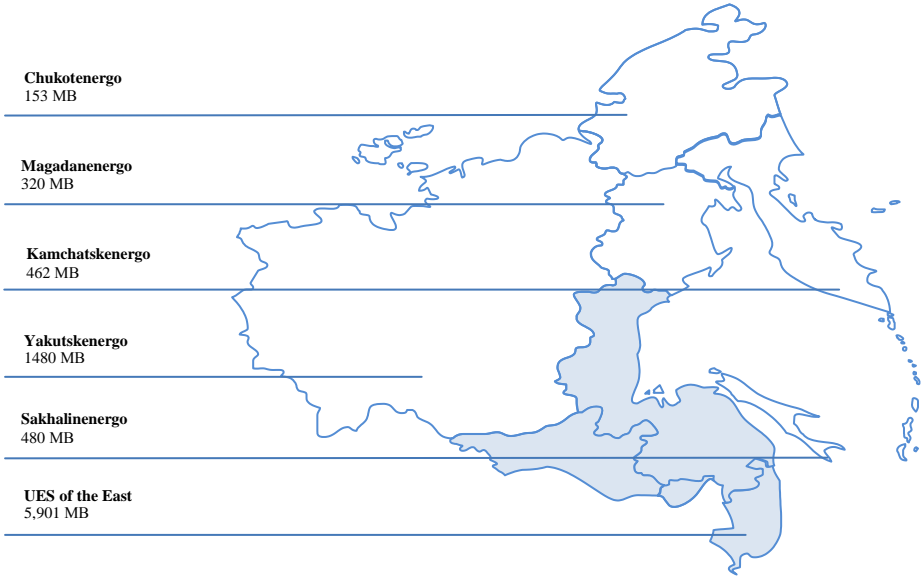
For RusHydro	For RAO ES of the East
<ul style="list-style-type: none"> ❖ Significant synergistic benefit from the interaction between RusHydro and JSC RAO ES of the East, particularly in the Magadan, Kamchatka and Yakutia Regions with the investment of additional income in infrastructure construction projects of the Ust-Srednekanskaya HPP and the Nizhne Bureyskaya and Nizhne Zeiskaya HPPs, as well as comprehensive modernization of the Vilyui HPPs Cascade; ❖ Greater use of opportunities to enter into long-term electricity (capacity) supply contracts with new large industrial consumers in the region; ❖ Coordinating the system safety program in the operation of all facilities of JSC RAO ES of the East, including effectively monitoring production capabilities, controlling the timeliness and adequacy of repairs; ❖ Upgrading the efficiency of control over the implementation of JSC RAO ES of the East's investment program; ❖ Encouraging a cost increase of RusHydro in the interests of its shareholders, including the Russian Federation - the largest JSC RusHydro shareholder, providing a framework for maximizing revenue from the privatization of shares of JSC RusHydro owned by the Russian Federation; ❖ More efficiently implementing joint business projects with Russia's largest steel groups; ❖ Receiving added value via JSC RusHydro's participation in the chain of energy businesses in the Far Eastern Federal District (from power generation to electricity sales); ❖ Implementing a comprehensive interaction scheme with a strategic investor via the sale of State and treasury shares of RusHydro and a minority interest in Far Eastern assets; ❖ In cooperation with JSC RAO ES of the East to ensure attracting new large customers in the region and energy supply. 	<ul style="list-style-type: none"> ❖ Achieving an operational synergistic effect for the production capabilities of JSC RAO ES of the East; ❖ Jointly implementing a comprehensive investment program to modernize and reconstruct JSC RAO ES of the East; ❖ Introducing new technologies received from JSC RusHydro via its cooperation with leading Russian and foreign engineering centers, including the use of the modern design and scientific complex of JSC RusHydro (Institute Hydro-project, Lengidroproekt, Mosoblgidroproekt, NIIES, VNIIG Vedeneeva B.I), into the existing production capabilities of JSC RAO ES of the East; ❖ Increasing the Company's shareholder value via the integrated management of an effective public company; ❖ Using retail divisions of JSC RAO ES of the East in conjunction with JSC ED RusHydro (a 100%-owned subsidiary of RusHydro) to increase opportunities for the formation of energy service companies, providing comprehensive services in electricity supply, heating, energy conservation, utilities and other services.

Company profile

JSC RAO ES of the East was established July 1st, 2008, as a spin-off due to the re-organization of RAO UES of Russia. In accordance with re-organization terms, on July 1st, 2008, shares of JSC RAO ES of the East were placed with RAO UES of Russia shareholders.

JSC RAO ES of the East is a vertically integrated energy company that combines electricity and thermal energy production, dispatch control, transmission and distribution of energy, sales, repair and service activities. JSC RAO ES of the East is the largest energy company in Russia's Far East. The Company operates in all regions of the Far East Federal District (FEFD). Subsidiaries and affiliated companies of JSC RAO ES of the East are backbone enterprises in all regions of the FEFD. The RAO ES of the East Holding includes energy companies of the Eastern unified energy system, power supply companies (AO-energo), energy service companies and non-core assets.

Subsidiaries and Dependent Companies (SDCs) of the Holding RAO ES of the East



RISKS

Risk Management Policy

The Company's activities are associated with a number of risks, which under certain circumstances may affect the Company's production and financial results, social and natural environment. To reduce the negative impact of potential risks and optimize valuable opportunities, a risk management system aimed at ensuring implementation of the Company's strategy was created.

To optimize its response to risks, the Company constantly works on recognizing, assessing and managing, as well as developing and implementing measures to respond to risks and business continuity management. According to ISO 31000 and ISO 31010 international risk management standards and COSO ERM principles, a new internal control and risk management policy was adopted. For risk management, the Company established an internal control and risk management unit.

Within the Company, risk management is a part of the strategic management process and the staff motivation system. Quantitative and qualitative risk assessment tools include: modern methods for assessing potential losses, based on statistics, engineering analyses and financial mathematics.

The Company forms a strategic risk register, which it updates annually. Based on the Register, a risk management action plan is developed and implemented. The Company created databases for different types of risks. The Company created a crisis situation warning system and a staff hotline. To technologically support the risk management process, a project for an automated internal control and risk management system is being implemented.

In 2011, according to the results of assessment of the Company's operational risk management system the conformity with features of an advanced approach to risk management under Annex A to ISO31000: 2009 was identified.

In 2010, JSC RusHydro sponsored and carried out a survey of all Company's generating branches (19 branches). The survey was carried out by SUREGROVE LIMITED, an independent company, Great Britain, together with top global insurance companies. The survey contains an unbiased independent technical assessment of the facilities, safety and security of Company's generating assets operation and exposure to any insured events.

The reports by the independent surveyor were distributed to the international insurance market for an impartial risk assessment. As a result, the whole range of top global leaders in the insurance market decided to engage in the reinsurance programs related to JSC RusHydro's assets.

The Company continuously develops its risk management system aimed at ensuring reliability of plants operation, boosting environmental safety and energy efficiency of production, generation safety and labor protection quality, as well as improvement of management information on Company's risk profile and efforts made to optimize risks and establish risk focused management culture.

The Risk Management Board regularly works with Company employees, both in the main office and its branches and affiliates, to continuously improve their training and competency in risk management and engage them in training seminars and conferences in Russia and abroad.

Country Risks

The Company operates in the Russian Federation and therefore, is influenced by economic and political risks inherent in Russia.

Russia holds investment-grade ratings from leading international rating agencies. These ratings on the one hand reflect the Country's low level of public debt and high external liquidity and on the other hand demonstrate high political risk, which significantly limits ratings increases.

Russia is particularly dependent on global commodity price fluctuations, and a fall in natural gas and oil prices can slow Russian economic development. In addition, global financial problems can lead to a decline in foreign investment in Russia. These factors may constrain the Company's access to funding sources and may adversely affect the purchasing power of consumers for the Company's products.

In addition to economic factors, the political situation in Russia (the State is the Company's largest shareholder), the creation of obstacles for effective bureaucratic reform, inconsistent and frequent changes in tax and currency legislation, imperfections in the judicial system and high levels of depreciation for infrastructure facilities in the energy and transportation spheres may negatively impact corporate activities.

Industry Risks

The Russian power sector underwent reform, leading directly to the creation of a liberalized electricity market in 2011, where all energy (with the temporary exception of sales to the general population, as well as in non-price and isolated zones) is sold at free market prices based on market supply and demand.

Norms regulating the activities of Russian energy companies, including: market liberalization, the establishment of electricity tariffs, power market operations and the system of relationships between electricity producers and consumers, are being significantly changed.

Due to the on-going reform process and uncertainty related to its completion and ultimate scope, the Russian electricity market has undergone radical changes and continues to operate under relatively uncertain conditions.

Risks Associated with Corporate Activities

In today's conditions, risks associated with developing and operating the largest hydro-power company, taking into account wear and tear of funds and technology, aging and lack of qualified personnel, as well as possible emergencies, are relevant to the Company.

For 2011, we can highlight the following risks that the Company paid more attention to – risks associated with mergers and acquisitions, risks related to the security of the Company's facilities and risks associated with implementing modernization projects. In connection with the completion of corporate organizational changes, the risks of delays and mistakes in management decisions were reduced.

The risk of M&A failures

This risk is relevant in connection with the Company's activities on the M&A market, including the integration of RAO ES of the East (which was recently acquired by the Company) business processes. The principal risk factors are:

- ❖ Revaluation of shares of the acquired company;
- ❖ Under-estimation of the amount of additional investments;
- ❖ Acquisition of insolvent financial companies;
- ❖ Decline in stock prices for the companies involved in the merger/acquisitions;
- ❖ Deteriorating market position and financial condition for the period up to the completion of the merger/acquisitions;
- ❖ Lack of State support;
- ❖ Non-optimal integration of business processes and assets;
- ❖ Non-transparent business processes for the acquired company;
- ❖ Loss of control over the acquired company;
- ❖ Conflicts of interest and employee disloyalty from the acquired company;
- ❖ Structural complication of assets due to the acquired company;
- ❖ Uncertainty of the acquired company in new market segments;
- ❖ Deterioration in asset and liability quality for the acquired company.

The Company is working to upgrade methods and procedures for implementing mergers and acquisitions, including making adjustments in transaction terms if during the transaction there are negative impacts on an asset.

In connection with contribution of the control stake of JSC RAO ES of the East to the Company's equity capital in October 2011, the risks connected with deficit of funds for modernization and construction of the energy infrastructure of the Far East due to increased level of operational risks related to ageing of equipment and depreciation of fixed assets of the purchased company became topical. To manage this type of risk, the Company took measures aimed at integration of JSC RAO ES of the East into RusHydro Group; the Company continues working on:

- ❖ on implementation in JSC RAO ES of the East the methodology of management of the operational life of the asset on the basis RCM implemented in the Company; it will allow to better control the status of the production facilities of JSC RAO ES of the East,
- ❖ on implementation of a warning system in the production facilities of JSC RAO ES of the East.

Moreover, the Company works on attraction of additional financing for reconstruction of existing and construction of new generating facilities and electric energy and heat transmission lines, as well as for repair of the fixed assets of JSC RAO ES of the East. In conditions of deficit of funds for implementation of the Company's investment program these risks may become topical for the Company in the future.

Risk of reduced proceeds from the sale of electricity and power

The risk is significant because of a growing social burden and State restrictions on growth rates for electricity prices and power, as well as the existence of financial covenants, which impose certain restrictions on the Company's activities.

This risk is the inability to accurately predict the volume of electricity produced in both the medium- and long-term. Basically, this risk impacts the execution of liabilities to supply energy to the New Wholesale Electric Energy/Power Market (NWMEP).

Risk optimization is implemented as part of JSC RusHydro's production and marketing activities via the following measures:

- ❖ Developing its own hydro-meteorological monitoring system to upgrade the accuracy of forecasting and tracking available water resources at RusHydro sites, which are not secured by qualitative prognostic information;
- ❖ Protecting the interests of HPPs in inter-agency operative groups under the Federal Agency for Water Resources;
- ❖ Implementing measures under the "Optimization of water resource usage" of JSC RusHydro's energy conservation program.
- ❖ Concluding bilateral hedging RSV (market at the-day-ahead) – related contracts (including the purchase of electricity to ensure the execution of obligations).

Risk related to the construction of alternative energy supply facilities

A key focus of the Russian energy industry reform is creating competition in energy generation and supply across Russia. The alternative energy supply facilities constructed by large consumers may result in growing competition and reduced energy generation and supply volumes by the Company.

In order to mitigate such risk, the Company reaches out to its end-users to establish beneficial and sustainable relations, increase performance by implementing cost cutting programs, increase the share of long-term energy supply contracts in the total number of concluded contracts and implement a consistent financial policy.

The risk of market fluctuations and investment project parameters

This risk is critical to the Company, primarily due to the high conservation cost for investment projects; however, the most likely damage from implementation of the risk does not exceed 10-15% of the annual investment program. The essential facts of cost overruns can lead to the need to re-distribute investment resources, which in turn can lead to a negative revaluation of the Company's market value by shareholders and investors.

Risk factors are: higher equipment and supply prices, poor project documentation quality, adverse changes in currency exchange rates, the high cost of conservation for an investment project and the poor quality of equipment (low technological culture of producers).

To reduce the negative impact, the Company is working in the following areas:

- ❖ Developing a corporate project management system to systematize data for both existing and designed projects;
- ❖ Optimizing the insurance and procurement system related to construction and assembly work;
- ❖ Strengthening the role of its own design institutes in the internal review of project and working documentation;
- ❖ Developing a supplied equipment quality control system (including the process of its production and shipment / delivery).

Risks of fund shortages from external sources for investment

The risk is significant due to possible consequences for the Company, owing to a simultaneous reduction in all or a portion of funding sources. An acute shortage of investment funds may lead to a scenario in which the Company will be forced to stop construction or mothball numerous generating facilities under construction that affect the economic efficiency of both the Company's investment projects and its financial results as a whole.

The sustainable management of this risk involves maintaining sufficient cash and the availability of financial resources via the provision of credit lines. The Company adheres to a balanced model of financing floating capital through both short- and long-term sources. Temporary surplus funds are placed in short-term financial instruments, mainly in bank deposits and promissory notes.

To level out this risk, the Company implemented a system of monitoring contracts by introducing and applying "standard financial terms" when negotiating with contractors and developed management techniques for interest and currency risks (taking into account the Company's credit policy). The Company is working on preparing flood zones for reservoirs of constructed HPPs from federal budgetary resources and budgets of constituent entities of the Russian Federation.

The risk of man-made accidents

The risks are associated with high levels of wear and tear, the breach of exploitation conditions, untimely repairs and re-tooling and modernization. Equipment failure and waterworks destruction can be caused by the implementation of these risks.

According to a corporate assessment, the risk probability is at an average level. All major production facilities of the Company are insured. A range of measures to ensure the reliability of equipment and facilities at an adequate level include:

- ❖ Fully implemented repairs; the fulfillment of a long-term modernization and reconstruction program as approved by the Company's Board of Directors;
- ❖ The use of modern diagnostic methods without stopping equipment, modern technologies of production asset management, including necessary information technology, continuously optimizing the structure and size of spare parts volume;
- ❖ Continually developing the process of life-cycle management for equipment in the existing HPP system.

Environmental risks

Environmental risks include the possibility of oil leaks into rivers from hydro-power units of HPPs, as well as the possibility of exceeding marks for the dam (reservoir) in the upper and lower ponds. Excess reservoir levels at the upper or lower mark may flood coastal zones, where production facilities, residential buildings and natural systems are located.

To reduce these risks, the Company is replacing the components and assemblies of the HPPs' hydro-turbines with modern ones; this construction ensures a high degree of ecological compatibility with production. Reservoir level regulation is carried out in strict accordance with a schedule issued by the inter-agency operative group. To prevent flooding, dyke dams and protective installations are used.

To further upgrade environmental protection activities, the Company has implemented an environmental management system under the ISO-14001-2004 standard.

Information About Possible Circumstances That Objectively Hamper the Company's Activity

Acts of terrorism

Due to the tense political and social situation, the revival of armed gangs in the North Caucasus, a high probability of local and regional armed conflict, a growing threat of international terrorism (including on the eve of the 2014 Olympics), increased political instability in several developing countries due to the economic crisis, the activity of radical organizations and the development of industrial terrorism, the Company is concerned about possible risks associated with terrorist activity, including at the Company's sites located in this region.

To reduce these risks, the Company constantly carries out measures to ensure safety. A comprehensive program to ensure that the Company's facilities are safe and protected from terrorism was developed and implemented. The Company regularly inspects anti-terrorism protection and conducts staff trainings, including specialized anti-terrorism exercises and trainings for security guards at the Company's facilities.

Interaction Plans exist with law enforcement authorities to prevent the commission of terrorist acts or the threat of terrorist acts at the Company's facilities. On the territory of the enterprises, there are access modes and internal security modes. In conjunction with law enforcement agencies, theft prevention measures are organized. The most dangerous threats are assessed and plans are developed to eliminate consequences, in conjunction with the Russian Civil Defense and Emergency Situations Agency at the Company's generating assets.

The Company's fixed assets insurance package includes insurance against acts of terror and sabotage. In order to offer risks of terror acts and sabotage on the insurance markets, the Company disclosed information on the protection of its operated facilities against the threats of terrorism and sabotage and funding its efforts to establish a comprehensive security system. This enabled the Company to ensure an efficient protection of its property interests against terrorist acts and sabotage risks.

The Company held a road-show to mitigate negative effects on positioning the occurring insured events related to the sabotage risk on the international insurance market.

Earthquake-prone areas

Seismic hazards in areas in which the Company's facilities are located is not significant.

Seasonal flooding areas

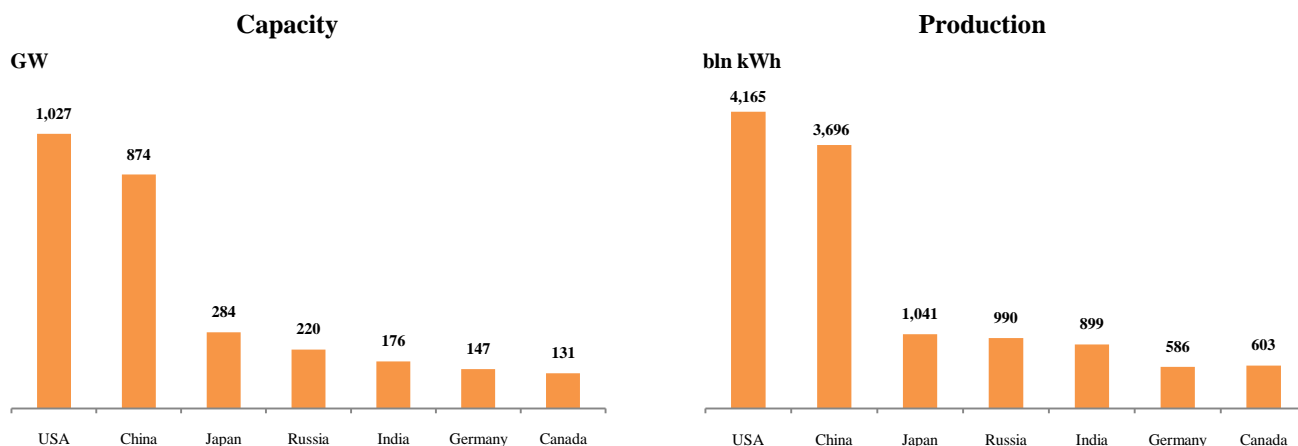
The risk of seasonal floods plays an important role in corporate activities. To manage this, water regime management, including: forecasting and warning, reservoir regulation, spillway construction and operation and other measures, is implemented.

INDUSTRY REVIEW

The Electricity and Capacity Market

Total installed capacity and generation in Russia and worldwide

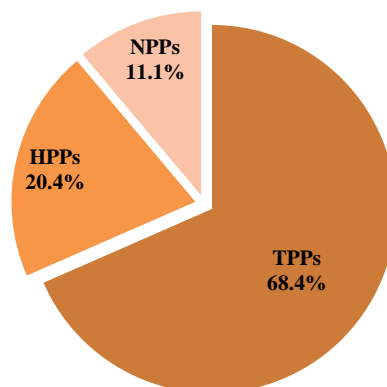
Globally, the Russian energy industry ranks fourth in terms of installed capacity and production volume.



Source: IEA, 2011

As of January 1st, 2012, the installed capacity of Russian UES power plants was 218,145.8 MW. In terms of installed capacity, the share of thermal power plants (TPPs) is approximately 68.4%, the share of hydro-power plants (HPPs) is 20.3% and the share of nuclear power plants (NPPs) is 11.1%.

Distribution by Generation Type

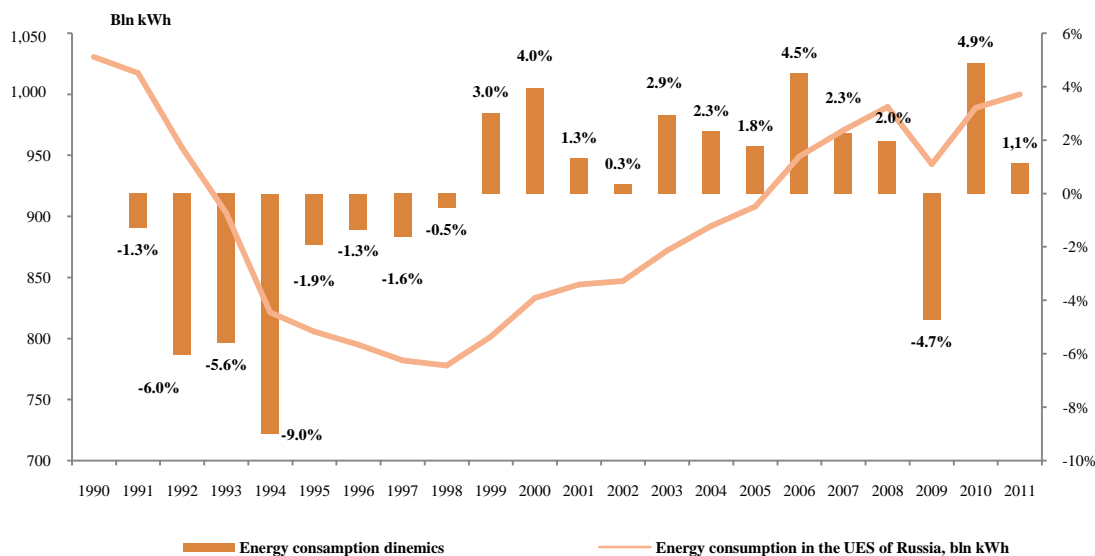


Source: SO UES

In 2011, the installed capacity of Russian UES power plants increased to 4,817.3 MW via the commissioning of new generating equipment and the modernization of existing generating equipment at power plants. Generating equipment at Russian UES power plants with a total capacity of 1,507.2 MW was decommissioned.

Historical energy consumption

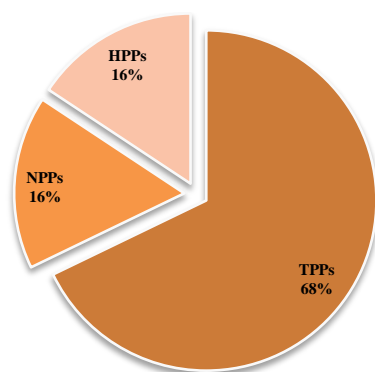
Since 1998, except for the 2009 crisis, Russia has experienced energy consumption growth.



Source: SO UES

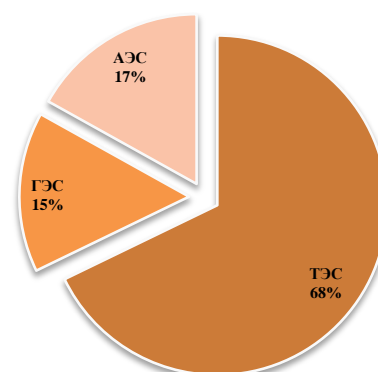
According to JSC “SO UES,” in 2011, consumer demand for energy in UES of Russia increased 1.1% to 1,009.07 kWh and production growth was 1.5% - up to 1,019.40 bln kWh. Approximately 68% of total electric power was produced by TPPs, 17% by NPPs and 15% by HPPs:

Structure of Electric Power Production in Russia



Source: Federal State Statistics Service

Structure of Electric Power Production in the UES of Russia



Source: SO UES

The structure of the electricity (capacity) market

Currently, the Russian Federation has a two-level (wholesale and retail) electricity (capacity) market.

Generating companies, electricity export/import operators, sales organizations, power distribution companies (in terms of purchasing electricity to cover transmission losses) and large consumers are buyers and sellers on the wholesale market.

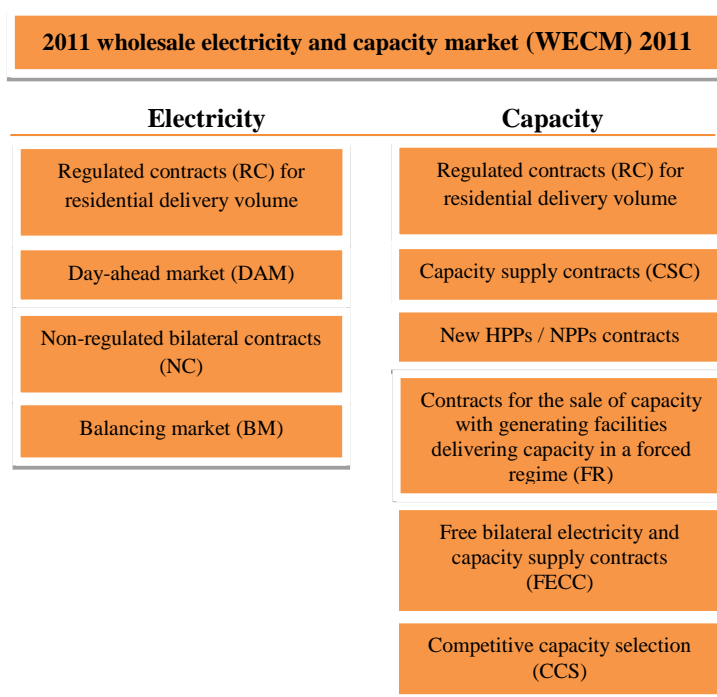
Most of Russia’s generating assets are concentrated in five thermal Wholesale Generating Companies (WGCs), the Federal Wholesale Hydro Generating Company (JSC RusHydro), 14 Territorial Generating Companies (TGCs) and the State Concern Rosenergoatom. The top industry companies also include JSC Inter RAO UES, an export and import energy operator owning a range of generating assets, both in Russia and abroad.

The State-owned Federal Grid Company (JSC FGC) operates the main high-voltage transmission lines. State-owned shares of Inter-regional Distribution Grid Companies (IDGCs) were transferred to JSC IDGC Holding. The system operator (JSC SO UES) performs operational dispatch control within the Russian Unified Energy System.

The wholesale electricity and capacity market operates in regions incorporated in the pricing zone. The first pricing zone covers the territory of European Russia and the Urals, whereas the second zone encompasses Siberia. In non-pricing zones (Arkhangelsk and the Kaliningrad Region, the Komi Republic and Far Eastern regions), where for technological reasons, organization of market relations in the electric power industry is not yet possible, the sale of electricity and capacity on the wholesale market is regulated by tariffs.

In isolated power systems which are not technologically incorporated in Russia's unified energy system, the wholesale electricity and capacity market is absent and power delivery is regulated by retail markets.

Full liberalization of the wholesale and retail electricity and capacity market, which began in January 2007, was completed January 1st, 2011. The 2011 structure of the wholesale market was as follows:



Source: <http://www.sesb.ru/opt/>

Starting January 1st, 2011, power is delivered to the wholesale electricity (capacity) market at free (non-regulated) prices, with the exception of power delivery in areas which are not part of wholesale market pricing zones, in isolated territorial power systems, including the constituent territories of the Russian Federation, combined in a pricing zones of the wholesale market within the boundaries of which the equilibrium price is not formed. In addition, the prices for electricity delivered to the population and equivalent categories of consumers, as well as to customers in certain federal subjects of the Russian Federation of pricing zones in the territory of which the Government of the Russian Federation establishes special conditions of operation of the wholesale electricity and capacity market (in the North Caucasus, Republics of Tuva and Buryatia) are subject to regulation.

Electric power volumes not covered by regulated contracts are sold at non-regulated prices under free bilateral contracts (FC), on the day-ahead market (DAM) and on the balancing market (BM).

Capacity volumes not covered by regulated contracts are sold under free electricity and capacity supply contracts (FECCs), including the commodity market and contracts for capacity sales as the result of competitive capacity selection (CCS) conducted by the system operator. In addition, the long-term capacity market includes: capacity provision agreements (CPAs), which allow for financing new power generation investment.

In December 2010, the first campaign to sign capacity provision agreements (CPAs) ended. The thermal generating facility, commissioned under a capacity provision agreement, guarantees capacity payments for 10 years (20 years for contracts similar to CPAs signed with NPPs and HPPs), which provide returns on CAPEX and operating expenses as specified.

Capacity supply contracts were signed with heat power industry generating companies, spun-off from RAO UES of Russia. The list includes constructing energy facilities with a total capacity of 28 GW to 2015. Most new facilities will be located in the European part of Russia, the Urals and Siberia.

A total of 6,840 CPAs were signed with generating companies of the heat power industry and 3,616 CPAs were signed with HPPs/NPPs. Capacity supply contracts, similar to CPAs, were signed with JSC RusHydro and JSC Concern Rosenergoatom. As part of the CPA, JSC RusHydro will implement the following projects: the Gotsatlinskaya HPP, the Zagorskaya PSPP-2, the Zaramagskih HPP, the Zelenchukskaya HPP-PSPP and the Kashkhatau HPP, with a total capacity of slightly less than 1.5 GW.

Commissioning new facilities will eliminate the problem of lack of production capacities in experiencing shortages of electricity zones, as well as increase sectoral efficiency as a whole.

Grid infrastructure

The two principal types of activity conducted by grid organizations are: the transmission of electrical power over electrical grids and the technological connection of power receivers for electricity consumers, the power plants of generating companies and the transmission facilities of other owners to the electric grid. These activities are both natural monopolies and are thus regulated by the State.

The operation and development of Russia's electrical grid are the responsibility of the operator of the Unified National (All-Russian) Electrical Grid (UNEG), JSC UES FGC, operating the 110-1150 kV high-voltage transmission networks, and JSC IDGC Holding, operating 0.4 - 220 kV distribution networks and territorial network organizations (TNO), providing electric power transmission and distribution services via the usage of other transmission facilities than those of the UNEG.

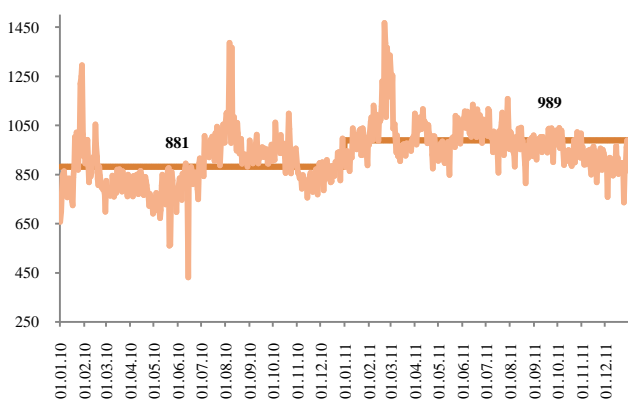
DAM price dynamics

The day-ahead market (DAM) is a competitive selection of price bids from suppliers and buyers for the day before actual electric power delivery; prices and delivery volumes are defined for every hour of the day, as conducted by commercial operator JSC ATS.

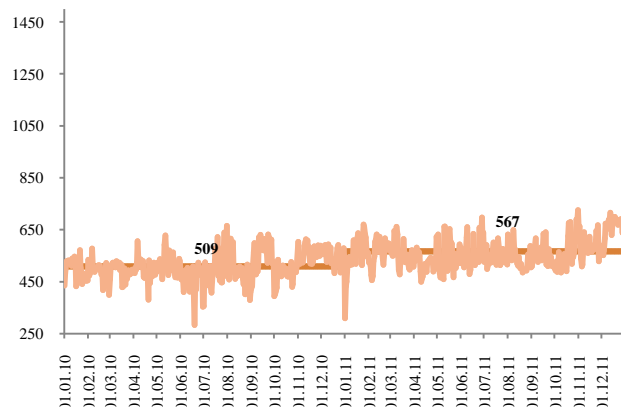
DAM prices have relatively high volatility due to, firstly, cyclical fluctuations (daily, weekly and annually), and secondly, due to price fluctuations caused by unpredictable demand- or supply-side changes.

According to the NP Market Council, the average weighted index of equilibrium prices for electric power during 2011 in the European part of Russia and the Urals rose 12.3% compared to 2010 and reached 989.1 rub./MWh. In Siberia, the average weighted index of equilibrium prices during the past year rose 11.4% - to 566.8 rub./MWh.

The Index of the Equilibrium Price for the Purchase of Electric Power in the 1-st PZ



The Index of the Equilibrium Price for the Purchase of Electric Power in the 2-nd PZ



In 2011, the growth in electric power prices can primarily be attributed to the completion of price liberalization in the industry and increased fuel costs.

2011 regulatory activity and its impact on the industry stock market

In early 2011, after electricity and capacity market liberalization, as well as the transition of network organizations to the new tariff regulation mechanisms, there was a significant electricity price hike. As a result, the incremental price in January and February was 17%, exceeding parameters defined by the 2011 forecast.

To limit the growth of regulated tariffs in the infrastructure sector (in terms of the monopoly component) and free prices on the liberalized market, the Government of the Russian Federation adopted a package of measures that significantly changed the sector regulation and tariff forecast system. In particular, the Russian forecast for 2012-2014 socio-economic development, approved by the Government, intended using the following mechanisms:

- ❖ Rejecting the indexation of free prices for capacity and regulated prices (tariffs) for wholesale market suppliers (for delivery to the population, “forced”);
- ❖ Establishing the overall price level for competitive capacity selection in FPTZ Siberia;
- ❖ Eliminating the investment component of NPP/HPP;
- ❖ Changing the methodology of RAB- regulation RAB-tariff for FGC and IDGC from July 1st, 2012.

Meanwhile, revising the sector regulation system and tariffs put pressure on the electric power sector index MICEX - MicexPWR, which at the end of 2011 decreased 40.2%, a significant decline compared to the stock market as a whole. One of the hardest-hit segments in the electric power industry was the distribution sector; the sector which the regulator blamed for high electricity tariff growth rates.

2012 consumption and price forecast

In 2011, adjustments made to earlier decisions to ensure a moderate increase in prices and tariffs on goods (services) for natural monopolies, namely the shift in indexing growth in regulated prices and pipeline rates and regulated tariffs for natural monopoly activities in the electric power industry at mid-year (July), will prevent a hike in electricity prices in early 2012.

According to the 2012-2014 socio-economic development forecast:

- ❖ Electricity prices for all consumers, except for the general population, will rise 6.5-7.5% on average per annum in 2012 and in 2013-2014 9-11% annually;
- ❖ The 2012-2014 indexation of regulated electricity tariffs for the population will be in July. As a result, from July 1st, 2012, tariffs will grow 6%, from July 1st, 2013 - by 8-9%, from July 1st, 2014 - by 10-12%;
- ❖ The indexation of regulated tariffs for network organizations will also be in July: from July 1st, 2012 – by 11%, from July 1st, 2013 - 2014 - by 9-10% annually;
- ❖ Regulated tariffs for natural gas will increase 15% on July 1st each year.

In non-pricing zones of the wholesale electricity market and isolated territorial electric power systems, tariff growth due to an increase in fuel (coal) costs and other factors can be from January 1st, 2012.

As for consumption, according to changes approved by the FTS to the consolidated balance forecast of electricity energy (capacity) production and supply within the Russian Unified Energy System to constituent Russian entities for 2012, in 2012, Russian electricity consumption will be 1,049.1 bln kWh. Thus, taking into account adjustments, in 2012, forecast growth in electricity consumption will be approximately 3% compared to actual consumption in 2011.

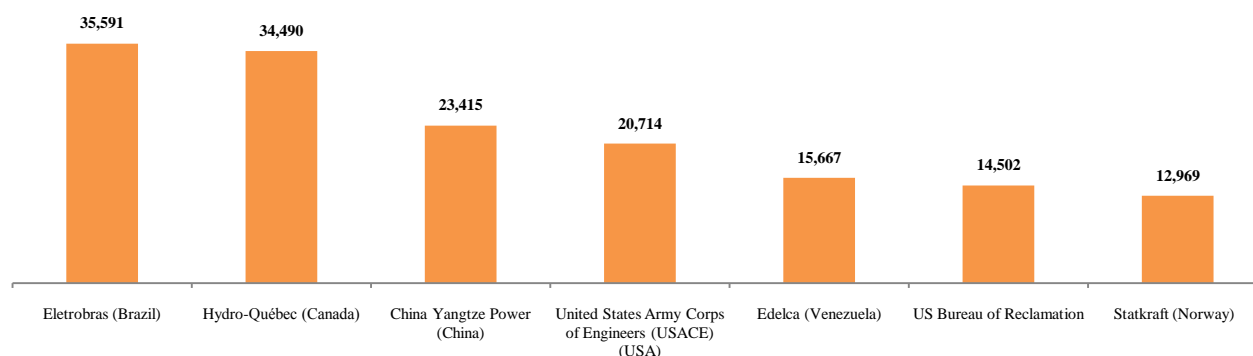
Peer group

There are numerous power companies globally which rely on hydro-power plants for the majority of their capacity and which are owned by the State.

Company	Summary	Installed capacity, MW
Eletrobras (Brazil)	The largest power company in Brazil and Latin America, as a whole. Its assets include: numerous major HPPs, including Itaipu, the world’s largest hydro-power plant on the Parana River. The Company is controlled by the State, which owns 52% of its shares.	35,591
Hydro-Québec (Canada)	Canada’s largest power company, which played a crucial role in the economic development of the Province of Quebec. The Company’s assets include numerous HPPs, such as major cascades on the Manicouagan River and the La Grande River. The Company is owned by the government of the Province of Quebec.	34,490
China Yangtze Power (China)	The Company has only two HPPs. The Three Gorges Dam is the world’s largest hydro-power plant with a project capacity of 22.4 GW, and the downriver Gezhouba Dam has a capacity of 3.1 GW. The Company is controlled by the State.	23,415
United States Army Corps of Engineers (USACE)	While not a power company, it is a government agency focused on building and operating HPPs (electricity sales are the responsibility of other government	20,714

(USA)	agencies)	
Edelca (Venezuela)	The Company's main asset is the world's third largest HPP – the Guri Dam – on the Caroni River, with a capacity of 10.2 GW. The Company supplies most of Venezuela's electricity and is wholly owned by the State.	15,667
US Bureau of Reclamation	While not a power company, it is a government agency that operates numerous HPPs, including the famous Hoover Dam	14,502
Statkraft (Norway)	The largest electricity producer in Norway and the third largest in Scandinavia. The Company owns approximately 150 HPPs, with lots of them having long-term storage reservoirs. The Company is wholly owned by the State.	12,969
BC Hydro (Canada)	The largest electricity producer in the Province of British Columbia. The Company owns 30 HPPs and is controlled by the provincial government.	n/a

Installed capacity of the largest global peers, MW



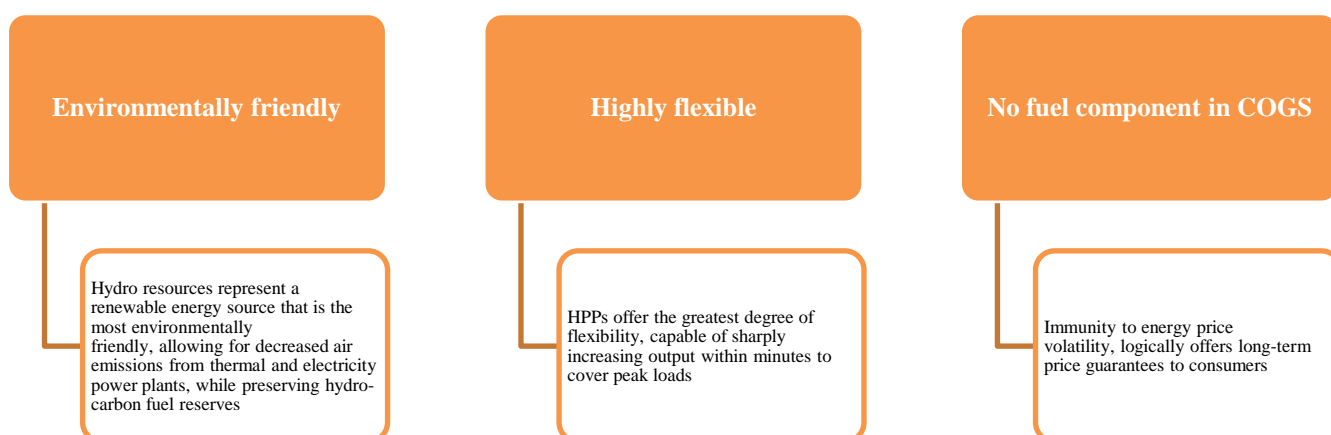
Key competitors and competitive advantages

With the exception of RusHydro – the Federal Hydro-Generating Company of the Wholesale Market – most of Russia's generating assets belong to the six thermal power generating companies on the wholesale electricity market territorial generating companies (OGKs), fourteen territorial generating companies (TGKs) and the State-run Rosenergoatom (a nuclear power producer). Other large companies operating in the industry include Inter RAO UES, which is a Russian electricity exporter and importer that owns numerous generating assets in Russia and abroad.

Parent company	Generators
Gazprom Energoholding	❖ TGK-1 ❖ TGK -3 ❖ OGK-2(merged with OGK-6) ❖ OGK-6 (merged with OGK-2)
Rosenergoatom	❖ Rosenergoatom
En+ Group	❖ Irkutskenergo ❖ The Krasnoyarskaya HPP
IES Holding	❖ TGK-5 ❖ TGK -6 ❖ TGK -7 ❖ TGK -9
Inter RAO UES	❖ INTER RAO UES ❖ OGK-1 ❖ OGK -3 ❖ TGK-11
E.ON	❖ OGK-4
Enel	❖ OGK -5
SUEK	❖ Kuzbassenergo (TGK-12) ❖ TGK-13
FJSC Sistema	❖ Bashkirenergo
LUKOIL	❖ LUKOIL (TGK-8)
UMMC	❖ Novosibirskenergo
Sintez Group	❖ TGK-2
Onexim	❖ Kvadra (TGK-4)

Fortum	❖ Fortum (TGK-10)
ESN Group/Russian Railways	❖ TGK-14

The Company's key competitive advantages



The Company's share in the market segment and performance over the past three years

Year	Electricity			Capacity		
	Consumption in Russia, million kWh	Company output, million kWh	Share	Installed capacity of Russian power plants, MW	Total installed capacity of the Company's power plants, MW	Share
2009	942,825	81,607	8.7%	211,846	25,402	12.0%
2010	988,961	72,002	7.3%	214,869	25,506	11.9%
2011	1,021,100	77,052	7.5%	218,146	26,116	12.0%

* Source: SO UES

Company's share has remained stable during the last three years, both by energy generation performance and by the share of total installed capacity across the Russian Federation.

Tariff regulation

Under statutory legal requirements, all plants with installed capacity exceeding 25 MW can sell electricity only on the wholesale energy market (WEM). A majority of the Company's power plants are WEM operators. Power plants with capacity ranging from 5 MW to 25 MW are entitled to operate both on the wholesale and retail electricity and capacity markets. Corporate plants in this category sell their electricity and capacity on the WEM. Given that plants with capacity less than 5 MW and operating in the retail market are not regulated by the State and can sell electricity and capacity at unregulated prices, the table below provides a tariff scheme for HPPs operating on the WEM.

Electricity and capacity are sold in accordance with tariffs under regulated agreements (RAs). The total value of the RAs may not exceed 35% of the full energy and capacity supply volume to the wholesale market as set forth in the balance sheet decision for the relevant producer.

		New plants		Existing plants		
		Facilities covered by commissioning agreements	HPPs not covered by commissioning agreements	Price Zone 1	Price Zone 2	Non-price Zone
electricity	RA	tariff	tariff	tariff	tariff	
	Four-lateral agreements					tariff
	DAM	Unregulated WEM sector				
	Non-regulated bilateral power and capacity contracts					
	Non-regulated bilateral agreements					

capacity	RA		tariff	tariff	tariff	
	Four-lateral agreements					tariff
	Capacity traded on a competitive basis		WEM	WEM	tariff	
	DAM	WEM				
	Non-regulated bilateral power and capacity contracts		WEM	WEM	WEM	

In Prize Zone 2, capacity traded on a competitive basis is also sold under tariffs equal to RA tariffs.

Tariffs for plants that are WEM market players are established by the Russian Tariffs Service (RTS), in accordance with proprietary guidelines:

- ❖ The main tariff calculation methodology for existing plants (including those located in the non-price zone) is the indexation methodology: the base calculated in 2007 is reviewed annually so that it can increase in line with the consumer price index (as published by the Russian Ministry of Economic Development). The above-mentioned method is also applied to new plants starting from their second year of operation (for facilities covered by commissioning agreements, it applies to electricity only);
- ❖ For the first year of a plant's WEM operation, the tariff is based on the economically justified expenditure method, which helps identify the economically justified amount of financing that a company needs to carry out regulated operations during a specified time period.

In contrast to prior regulatory periods, the tariffs described above do not include the profit-funded investment component. From 2011 to 2012, the capacity price, based on the results of competitive trading, will be increased by a rate determined by the Russian Federal Tariffs Service, under approved guidelines that ensure the funding needed to construct (rebuild or upgrade) HPPs (PSHPPs). For facilities covered by commissioning agreements, the capacity price is also calculated by the Federal Tariffs Service under approved guidelines.

The Russian Federal Law "On the Electric Power Industry" sets forth a legislative framework and government regulation methods, as well as the scope of power for regulatory bodies in the electric power industry.

The procedure for calculating and setting electricity and capacity tariffs and timelines are set by the Rules of Government Regulation and the Application of Tariffs on Electric and Heat Energy in the Russian Federation.

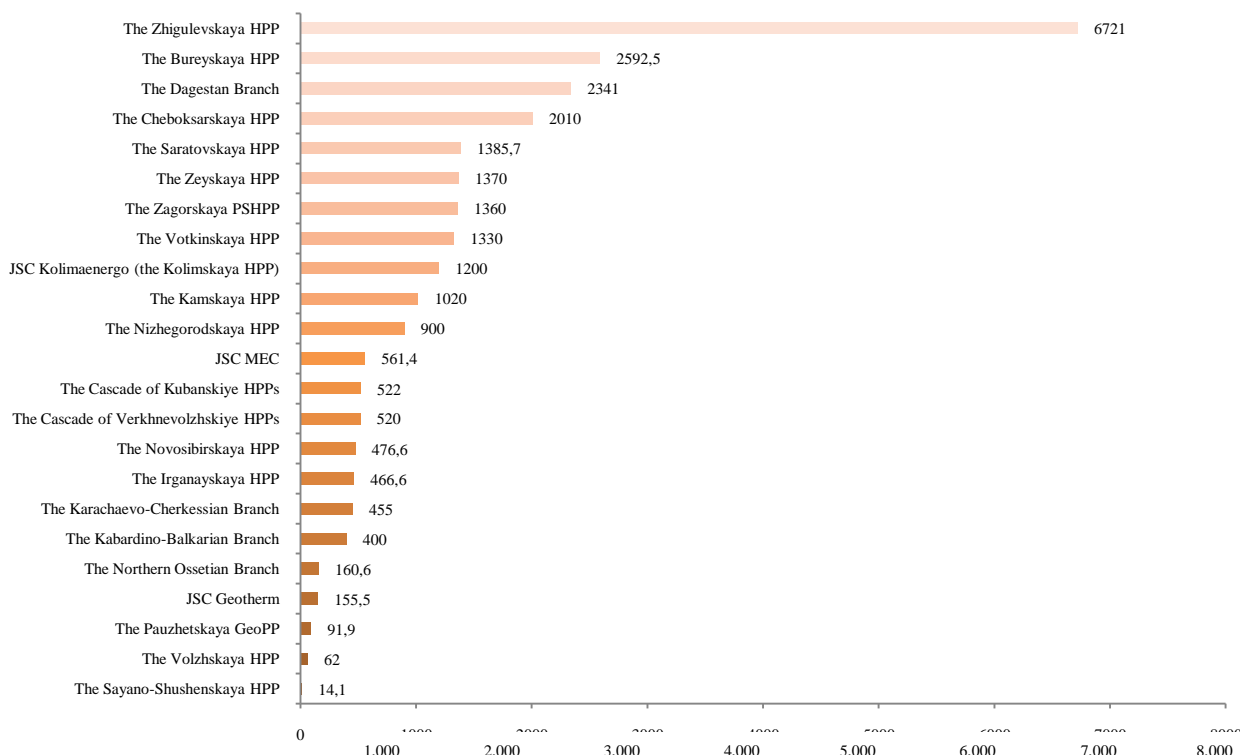
Production performance

In 2011, RusHydro's totaled installed capacity grew 48.5 MW, driven by:

- ❖ The launch of the Egorlykская HPP-2 at the Cascade of Kubanskiye HPPs – 14.2 MW;
- ❖ certification outcomes of equipment re-labeling:
 - at the Cascade of Verkhnevolzhskiy HPPs – 10.0 MW;
 - at the Volzhskaya HP – 10.0 MW;
 - at the Zhigulevskaya HPP – 10.5 MW;
- ❖ Mergers:
 - Small HPPs with a total capacity of 3.8 MW (1 MW Amsarskaya HPP, 1.4 MW Shinzanskaya HPP, 1.4 MW Arakulskaya HPP) with the Dagestan branch in December 2011.

As of January 1st, 2012, the Company had total installed capacity of 26.1 MW (including JSC Geoterm, JSC Kolymenergo and the Pauzhetskaya GeoPP).

The Company's installed capacity, MW

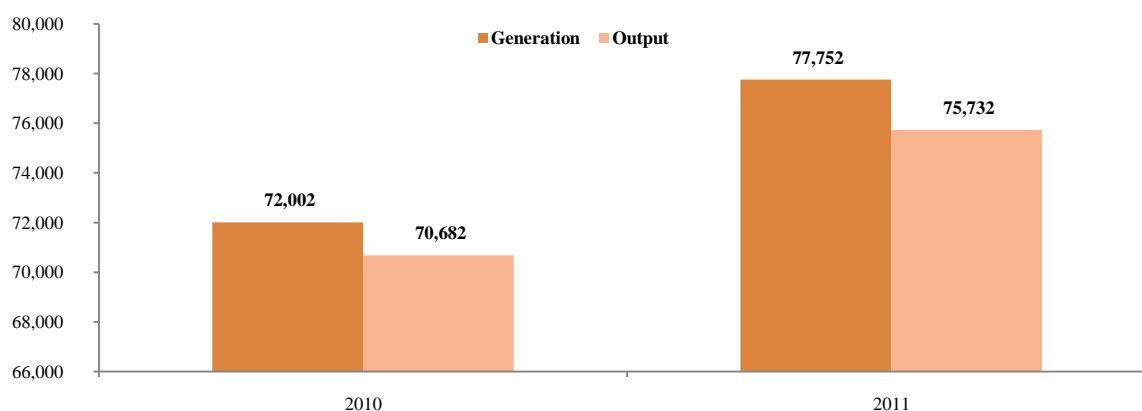


The Company remains committed to successfully developing retail electricity sales as a critical new business. As part of the Company's energy sales strategy, the Company acquired an interest in numerous energy sales companies during the reporting year to capitalize on the potential of retail electricity markets, synergies from electricity generation and sales and energy services, along with the Company's access to final consumers.

The 6.2% increase in RusHydro's electricity output in 2011, year-on-year, is due to equipment launches at the Sayano-Shushenskaya HPP following the technological breakdown in August 2009, as well as equipment launches at the Irganayskaya HPP following the September 2010 incident.

Actual electricity consumption totaled 99.3% of the Company's 2011 target, which can be attributed to the hydrological situation in the region of the Volga-Kama Cascade HPPs.

Power generation and output dynamics, million kWh



In 2011, the principal revenue growth drivers included:

- ❖ Increased actual electricity output;
- ❖ Increased electricity sales on the day-ahead market at unregulated prices, in accordance with the liberalization schedule for the wholesale electricity and capacity market;

- ❖ Higher unregulated electricity prices on the day-ahead market.

The Company's electricity and capacity purchases fell RUR 5,626 million and totaled RUR 9,150 million in 2011. In 2011, the principal reasons for the lower costs of energy purchases were:

- ❖ A reduction in electricity sales under regulated agreements, in accordance with the liberalization schedule for the wholesale electricity and capacity markets, along with increased electricity output, has caused a decline in the amount and cost of electricity bought to cover regulated agreements on the day-ahead market when HPP production is insufficient to meet the schedule of electricity supplies under regulated agreements;
- ❖ The absence of non-regulated bilateral agreements to purchase electricity in 2011, which were signed in 2010; this was due to changes in numerous rules and regulations for the wholesale electricity and capacity markets;
- ❖ A reduction in the cost of purchased capacity in 2011 versus 2010, due to a decline in the amount of capacity purchased by the Sayano-Shushenskaya HPP.

Principal efforts to boost energy sales efficiency included:

- ❖ Signing a Service Agreement for reactive power regulation without electricity output in July 2011. In addition to reimbursing maintenance expenses due to RusHydro's equipment being used to provide services under the Agreement, it helped compensate for the price of capacity purchased on the WEM (during the Agreement term);
- ❖ Signing non-regulated bilateral power and capacity contracts in both WEM price and non-price zones to boost electricity and capacity sales margins.

In 2011, the Company also initiated approving the following changes, taking into account hydro-power generation specifics:

- ❖ Taking into account performance specifics of counter-regulating power plants when involved in the automated secondary regulation of active capacity frequency and cross-flows (counter-regulating HPPs, i.e. low and medium-head hydro-power plants with an installed capacity of more than 200 MW with short-term storage reservoirs to redistribute varying water flows from the upstream power plants to its steady tail water flows to enable the upstream high-head regulating hydro-power plant with an installed capacity in excess of 1,000 MW to cover daily and/or weekly power load irregularities, are excluded from the automated secondary regulation of frequency and cross-flows of active capacity);
- ❖ Clarifications on the procedure for reporting the water tax rate to JSC ATS and JSC ATS' procedure description if the supplier fails to provide said data;
- ❖ Clarifications on the calculation procedure for the amount of electricity that can be sold by electricity suppliers under bilateral agreements in non-price zones, enabling suppliers to sell the largest possible amount of electricity ("overbalance") under bilateral agreements if they exceed the amount of electricity included in the supplier's balance forecast for the respective month;
- ❖ Clarifications on the procedure for providing investment program details (title list of construction in progress) with the capex target for building generating capacity to calculate the price of capacity supplied under sale and purchase agreements, for capacity of new HPPs (including PSHPs).

Energy efficiency

Energy efficiency tops the agenda for companies and regulators in most developed economies. Taking into account its power generation specifics, RusHydro adheres to an approach based on both efficiency and modernization.

In 2010, RusHydro's Management Board approved the 2010-2015 Program on energy conservation and upgrading energy efficiency, which sets forth three key areas that define energy efficiency measures across the entire Group and all business segments:

- ❖ Energy efficiency improvements at existing HPPs;
- ❖ Optimization of water resource utilization;
- ❖ Reduction in energy consumption to meet the Company's own needs

Given its type of power generation, energy consumption for its own needs is a non-significant indicator of the Company's own energy efficiency improvement efforts. HPP consumption is to a large extent shaped by water supply and modes of generation, as established by the system operator. As a result, electricity output growth was chosen as the key indicator for the 2010-2015 Program on Energy Saving and Upgrading Energy Efficiency at RusHydro.

As part of upgrading the energy efficiency management system, in 2011, the Company developed the corporate standard "Energy Efficiency and Energy Saving – Norms and Requirements" for its HPPs and PSHPs.

For 2011 to 2020, RusHydro's energy efficiency target is to increase electricity output to 3.3 billion kWh (4.04%).

Efforts aimed at upgrading the capacity and efficiency of hydro-power units and reducing electricity losses at power transformers brought the Company 89 million kWh growth in long-term average output per year. In value terms, the effect exceeded RUR 90 million.

Progress to date has been the result of synergies from the technical rehabilitation and modernization program (technological loss reduction by replacing turbines and units, upgrading the quality and volume of repairs and installing the latest energy-saving equipment and devices).

Key results of energy efficiency efforts

Commission capacity under the upgrading and renovation program	Long-term average output growth*	Fuel economy*	Reduction in CO ₂ air emissions*
MW	million kWh/year	thousand tons of equivalent fuel per year	thousand tons per year
25.5	88.588	22.946	44.582

*Effects from these efforts will be fully realized in 2012. Efforts are carried out across the following facilities: the Volzhskaya HPP, the Zhigulevskaya HPP, the Kamskaya HPP, the Cascade of Verkhnevolzhskiy HPPs, the Cheboksarskaya HPP, the Saratovskaya HPP, the Cascade of Kubanskiye HPPs
Source: RusHydro

Businesses that do not have heavy energy consumption (e.g. design and engineering companies) are predominantly switching from incandescent lamps to energy efficient ones. These companies are also introducing automated control systems to monitor lighting and heating, etc.

To increase energy efficiency and energy saving for energy consumers (energy sales performance development) the energy supply subsidiaries of JSC RusHydro are making the following efforts:

- ❖ carry out energy surveys of energy consumers and develop their energy saving programs;
- ❖ introduce the practice of energy service contracts; and
- ❖ enhance awareness and hold events encouraging energy saving and energy efficiency.

In 2011, energy audit departments of regional energy supply companies totally carried out 45 energy audits of branches and units of JSC RusHydro's energy supply companies and 18 energy audits of external customers.

The Company continued to develop its Energy Saving and Energy Efficiency Centers established by energy supply subsidiaries of JSC RusHydro in Krasnoyarsk, Novocheboksarsk and Ryazan. During the years, the Centers were visited by 15,000 people and held over 120 tours for students and 83 seminars for specialists.

In order to implement its pilot energy service contracts, JSC Energy Supply Company RusHydro is constructing a block modular boiler station in Pribelskaya village of Karmaksalinsky district, Bashkortostan. The facility is scheduled for commissioning in 1st half-year of 2012.

More details about the Company's energy efficiency policy are available in the 2011 Corporate Sustainability and Social Responsibility Report.

Volume of each type of energy resource used by the Company in 2011

In 2011, purchased energy accounted for the most part of energy resources used by the Company.

Energy resource type	Consumption volume in kind, million kWh	Consumption volume, RUR million
Purchased energy consumption:	3,290.6	
pumping mode	2,466.3	2,750
own need	824.3	

Global operations

RusHydro is strongly focused on enhancing its international business ties, aimed at attracting foreign investments into promising new projects and sharing experience and new technologies in hydro-power and renewable energy, along with driving bilateral cooperation with foreign electricity, design and engineering companies.

The Company is a member of numerous non-profits and international bodies:

- ❖ The Global Sustainable Electricity Partnership (e8);
- ❖ The World Economic Forum (WEF);
- ❖ The World Energy Council (WEC);
- ❖ The International Hydro-power Association (IHA);
- ❖ The International Commission on Large Dams (ICOLD);
- ❖ The International Association for Hydro-Environment Engineering and Research (IAHR).

In 2011, RusHydro was involved in a number of inter-state integration associations, including: the CIS Electric Energy Council and the Eurasian Economic Community (EAEC). In conjunction with the Executive Council of the CIS Electric Energy Council and the Hydro-project Association, the Company organized and managed an international youth R&D conference “Innovations in the Power Sector.” RusHydro also helped organize and manage the 40th anniversary meeting of the CIS Electric Energy Council, with the participation of heads of national energy ministries and local companies from the CIS.

As part of events organized by the Russian-Chinese Business Council, the Company continued establishing relationships and considering cooperation opportunities with large Chinese companies that are interested in energy and hydro-power sector partnerships. RusHydro sees new opportunities to team up with Chinese partners following the acquisition of a controlling stake in RAO ES of the East, which owns a large number of power facilities in territories bordering China.

In 2011, the Company signed numerous inter-corporate memorandums and cooperation agreements with foreign companies: France’s Alstom and Electricite de France, the State Grid Corporation of China, Argentina’s ENARSA, Iceland’s Reykjavik Geo-thermal, Austria’s Voith Hydro, Korea’s Korea Electric Power Corporation (KEPCO) and Hyundai Heavy Industries Co., Ltd.

Under its strategy for acquiring and building hydro-power generating assets outside Russia, the Company made its first acquisition in 2011, buying the Armenian-based Cascade of the Sevano-Razdansky HPPs, which includes seven diversion hydro-power plants on the Razdan River. The plants have 21 hydro-units with a total installed capacity of 561 MW and an average annual output of 501 million kWh.

INVESTMENT

Investment Policy Principles

The Company's investment policy and adoption of decisions related to it are based on the following principles:

- ❖ Investment decisions and the project's compliance with legislatively established requirements, building codes and environmental standards;
- ❖ Following the sequence of steps and stages for investment project implementation;
- ❖ Investment decisions and the project's compliance with requirements on profitability and risk, established by the Company's Board of Directors;
- ❖ Analysis of costs and benefits for alternative investment decisions at the end of each investment project stage when basic parameters change;
- ❖ Funding sources available for all investment projects.

The Company's investment activity is regulated by a single consolidated document – the Regulations on the Investment Management Process in the Form of Capital Investments (approved November 30th, 2010). Approval of the Company's investment program is the responsibility for the Company's Board of Directors. At the same time, in accordance with the Procedure for Formulating, Agreeing on and Approving Investment Programs for Electric Power Engineering Entities as a Government-linked Company, the investment programs, before being approved by JSC RusHydro's Board of Directors, are agreed upon with executive authorities and approved by the Russian Ministry of Energy (in accordance with Government Decree No. 977 of December 1, 2009 on Investment Programs of Energy Industry Constituents (as amended and restated on December 29, 2011)).

2011 Investment Program

The Company's 2011 investment program was approved by the Russian Ministry of Energy (16.09.2010) №447 and RusHydro's Board of Directors (15.10.2010, Minutes №109); and adjusted funding sources for the investment program were approved by Order No. 204 by the Ministry of Energy on May 31, 2011.

The 2011 investment program of JSC RAO ES of the East was approved by Order No. 477 of the Ministry of Energy on October 4, 2010; and adjusted funding sources for the investment program were approved by Order No. 653 by the Ministry of Energy on December 30, 2011.

The investment program of JSC Sakhalinenergo was approved by Order No. 386 of the Ministry of Energy on August 13, 2010.

The investment program of JSC Kamchatskenergo was approved by Order No. 386 of the Ministry of Energy on August 13, 2010; and the adjusted investment program was approved by Order No. 368 of the Ministry of Energy on August 22, 2011.

The investment programs of JSCs Magadanenergo and AC Yakutskenergo were approved by the Order of the Ministry of Energy on August 13, 2010; and the adjusted investment program was approved by Order No. 370 of the Ministry of Energy on August 22, 2011.

The investment programs of JSCs DRSK, Chukotenergo and UESC were approved by the executive bodies of the Russian Federation.

Thus, the approved 2011 investment volume for RusHydro was 134,151.3 million rubles, including:

- ❖ JSC RusHydro – 108,845.0 million rubles;
- ❖ Holding JSC RAO ES of the East – 25,306.3 million rubles.

For the fiscal year, expenditures on executing the investment program were 115,541.3 million rubles, which accounted for 86.13% of the planned investment volume:

- ❖ JSC RusHydro – 94,819.9 million rubles;
- ❖ Holding JSC RAO ES of the East – 20,721.9 million rubles.

The main reasons for the deviations from the investment program of JSC RusHydro:

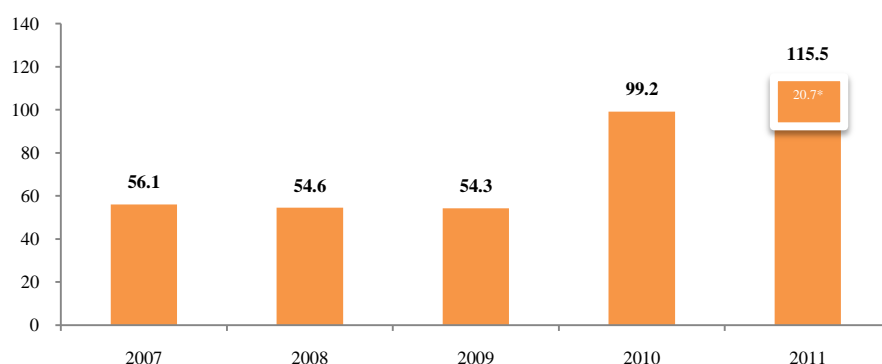
- ❖ For Technical Modernization and Reconstruction (TMR) projects - the upward deviation from planned values associated with beginning a series of projects on the comprehensive modernization of hydro-power equipment;
- ❖ For the project "Restoration of the Sayano-Shushenskaya HPP" - a decrease in funding due to refining the annual funding based on tendering procedures, as well as a cost update for reconstructing the 500 kV outdoor switchgear and the delivery of power generation transformers;

- ❖ For the project "The Boguchansky aluminum plant", reduction in funding results from poor organization of work by companies supervised by UC Rusal (JSC Construction Developer BoAZ);
- ❖ In the course of the Russian Ministry of Energy harmonizing the Company's adjusted investment program for 2011 and 2012-2014 investment program, it was decided to stop implementing the "Far Eastern Wind Power Plant" and the "Chibit Small HPP" projects. Hence, in 2011, financing on these projects was suspended;
- ❖ In the absence of a decision by State bodies on the construction of the Cancun HPP and the implementation of measures to bank up the water level at the Cheboksary Reservoir, in 2011, only project design work was financed.

The main reasons for deviations from the investment program of JSC RAO ES of the East:

- ❖ delays in tendering procedure dates on the priority projects of JSC RAO ES of the East;
- ❖ updating the required advance payments and adjustment of payment schedules on the concluded agreements;
- ❖ completion of the actual scope of work in the reporting period with payments carried forward to the Q1 2012.

Investment Dynamics, billion rubles



* JSC RAO ES of the East

In 2011, the main areas of investment were:

- ❖ Technical modernization and reconstruction (TMR) - 50 billion rubles. (JSC RusHydro - 34.1 billion rubles, JSC RAO ES of the East - 15.9 billion rubles);
- ❖ Facilities under construction - 47.7 billion rubles. (JSC RusHydro - 44.0 billion rubles., JSC RAO ES of the East – 3.7 billion rubles);
- ❖ Restoration of SSH HPP and BHPP - 8.3 billion rubles;
- ❖ Facilities under design - 6.9 billion rubles;
- ❖ RES projects – 1.3 billion rubles;
- ❖ Other projects – 1.1 billion rubles (JSC RusHydro: completion of SSH HPP, interest repayment on credit facilities allocated for financing the Kashkhatau HPP in 2010 – 0.1 billion rubles; and JSC RAO ES of the East: fixed assets acquisition, repayment of investment loans and interest on credit facilities – 1.0 billion rubles).

In 2011, the plan for commissioning capacities was fulfilled at 130%. In 2011, 25.5 MW of capacity was commissioned (from a planned volume of 18.5 MW), including:

- The Zhigulevsk HPP - 10.5 MW;
- The Uglich HPP - 10 MW;
- The Volzhsk HPP - 5 MW.

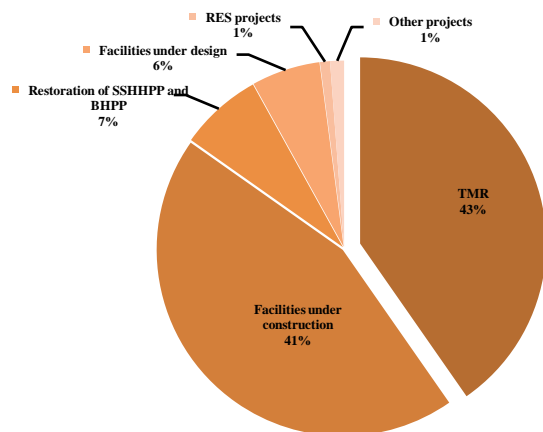
The Holding JSC RAO ES of the East – 3.78 MW (planned volume - 3.97 MW), including:

- ❖ upgrading DPPs in Dolinovka and Ossora villages and Palana village on total 1.7 MW (JSC UESC);
- ❖ construction of reserve DPP in Vitim village and supply of AD-60 gas generator to Yuren village of total 1.57 MW (JSC Yakutskenergo); and
- ❖ construction of distribution grids and substations to supply energy to mobile radiotelephone communications facilities of the federal highway Amur Chita-Khabarovsk of total 0.51 MW (JSC RAO ES of the East).

JSC RAO ES of the East electric grids:

- ❖ Grid capacity: planned length of 1,421.87 km; actually 1,569.0 km; performance - 110%;
- ❖ Transformer capacity: planned 542.97 MVA, actually 731.75 MVA, performance - 135%.

2011 Investment Structure



Major investment projects

JSC RusHydro:

- ❖ **Restoration of the Sayano-Shushenskaya HPP, 6,400 MW (management of August 17, 2009 accident and restoration of the Sayano-Shushenskaya HPP, renovation of the hydropower units with the full replacement of hydrogenation, hydroturbine and power equipment, automation and operation systems, alarm systems, safety communications system, defense and devices).** As of January 1st, 2012, four restored hydro-power units are being successfully operated. On December 19th, 2011, the first fully reconstructed hydro-power unit (number 1) was put into operation;
- ❖ **Construction of the coastal spillway of the Sayano-Shushenskaya HPP (construction of additional spillway to enhance reliability of the Sayano-Shushenskaya HPP).** Construction was completed and the facility was put into operation;
- ❖ **Full reconstruction of the Baksanskaya HPP (complete replacement of the existing and damaged equipment after the 2010 incident).** Work is carried out in accordance with an approved schedule. The target commissioning date – June 30th, 2012;
- ❖ **The 570 MW Ust-Srednekanskaya HPP (ensure energy supply to the Magadan region consumers and partially to consumers in the Oymyakon district of the Sakha Republic, supply reasonably priced energy to new gold and precious metal mining companies).** On September 25th, 2011, the Kolyma River was dammed. Work is underway to ensure the launch of the first two hydro-power units with temporary Pelton wheels in 2013;
- ❖ **The 2,997 MW Boguchanskaya HPP (the HPP completion has a critical importance for the development of Nizhny Priangarsk and Siberian economic regions. Half of energy generated by HPP is planned to supply to the aluminum plant under construction.)** In 2011, filling the foundation pit of the downstream channel, assembling the main electrical equipment of the GIS 500 kV, closing sluice ports of section 24 and section 28 and installing hydro-power units No.5 and No.6 were started.
- ❖ **The 100 MW Gopatlinskaya HPP (energy and capacity supply to the deficient North Caucasus UES; performing the assignment of Chairman of the**

JSC RAO ES of the East

- ❖ **Construction and renovation of energy grid facilities by APEC-2012 summit in Vladivostok (JSC DRSK)**
- ❖ **Convert the Vladivostok HES-1, HES-2 and TS Severnaya to natural gas combustion. (JSC DRSK)**
- ❖ **Convert the Yuzhno-Sakhalinsk HES-1 to natural gas combustion (JSC Sakhalinenergo)**
- ❖ **Convert the Kamchatka HES-1 to natural gas combustion. (JSC Kamchatskenergo)**
- ❖ **TPP construction in Sovetskaya Gavan** (meet the energy consumption growth outlook in the Sovetsko-Gavansky district related to the creation of a new port economic zone) of 120 MW electric power and 200 Gcal/h thermal capacity. The project is implemented under the Agreement between JSC RAO ES of the East and the Khabarovsk Region Administration.
- ❖ **GTP-TPPs construction at Vladivostok TPP-2 site** (meet a growing demand for energy in the Primorsky energy system and cover estimated capacity shortage) of 232.4 MW electric capacity and 200 Gcal/h thermal capacity. The project is implemented under the Agreement between JSC RAO ES of the East and the Primorsk Region Administration.
- ❖ **1st phase construction of Yakutsk DHPP-2** (replace disabled facilities of the Yakutsk DHPP and meet the anticipated demand for energy in the Central Energy District of Yakutsk energy system) of 170 MW electric capacity and 160 Gcal/h thermal capacity.
- ❖ **2nd phase construction of the Blagoveshenskaya TPP** (liquidate the existing and estimated shortage of thermal power) of 110 MW electric capacity and 175 Gcal/h thermal capacity.
- ❖ **Construction of the 5th energy unit at Yuzhno-Sakhalinskaya TPP-1** (cover the capacity shortage within the Sakhalin regional energy system and enhance energy supply reliability) of 370 MW electric capacity and 560 Gcal/h thermal capacity.
- ❖ **Construction of distribution grids and substations to supply energy to the mobile radiotelephone system at the Amur federal highway Chita-Khabarovsk** (energy supply to main mobile operators at the Amur federal highway). The project has been implemented in accordance with minutes No. VP-P9-46 of the meeting

Russian Government to make efforts to remedy the social and political situation in and improve the social status of Dagestan.)

- ❖ **The 352 MW Zamaragskiy HPPs (remedy energy shortages in the Republic of North Ossetia)**
- ❖ **The 840 MW Zagorskaya PSHP (streamline the irregular daily load schedule and regulate energy regimes)**
- ❖ **Small HPPs (commission new generating units based on RES; enhance a sustainable energy supply to the mountain regions of the North Caucasus)**
- ❖ **The 2010 MW Bureyskaya HPP and the 320 MW Nizhne-Bureyskaya HPP (for industrial energy supply to the Amur Region, Khabarovsk and Primorsky Districts and preventing winter floods in villages located in the lower pool of the Bureyskaya HPP, protection of the lower pool of the Nizhne-Bureyskaya HPP, including the area bordering on the Amur River.)**
- ❖ **The 140 MW Zelenchugskaya HPP-PSHP (enhance reliability of energy supply to the North Caucasus energy system and balance the daily schedule of the Kuban River.)**
- ❖ **The 12 MW Experimental Industrial Severnaya Tidal Plant (design and production of main floating TPP structures as a prototype model of high-power TPPs; building experience in hydropower design for northern off-shore regions; development of floating construction methods in the northern off-shore regions and technologies to construct a blocking subsurface dam for further construction of high-power TPPs.)**
- ❖ **The 1,000 MW Kankunskaya HPP (power supply to the participants in the investment projects for integrated development of South Yakutia (guaranteed energy consumers.)) The design documents are planned for execution in 2012.**

held at Vladimir Putin's office on August 30, 2010 to address the matter of providing telecommunications services along the Amur federal highway Chita-Khabarovsk.

Funding for the investment program

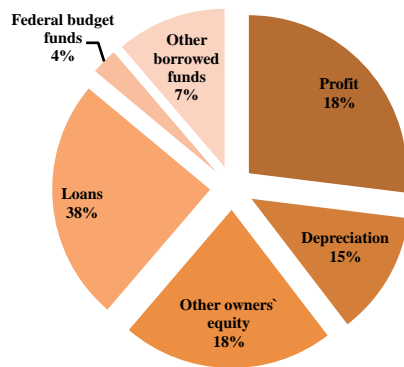
In 2011, the approved amount of funding sources was 134.2 billion rubles, including:

- ❖ Profit – 36.9 billion rubles;
- ❖ Depreciation - 17.2 billion rubles;
- ❖ Other equity – 32.4 billion rubles;
- ❖ Loans – 27.6 billion rubles;
- ❖ Federal budget funds – 4.5 billion rubles;
- ❖ Other borrowed funds - 15.5 billion rubles.

The actual value of sources used to finance the Investment Program in 2011 was RUR 115.5 billion, including:

- ❖ profit – 21.4 billion rubles (JSC RusHydro – 20.3 billion rubles; and JSC RAO ES of the East – 1.1 billion rubles);
- ❖ depreciation – 17.0 billion rubles (JSC RusHydro – 9.1 billion rubles; and JSC RAO ES of the East – 7.9 billion rubles);
- ❖ other equity – 20.3 billion rubles (JSC RusHydro – 15.5 billion rubles; and JSC RAO ES of the East – 4.8 billion rubles);
- ❖ loans and borrowings – 43. billion rubles (JSC RusHydro – 37.2 billion rubles; and JSC RAO ES of the East – 6.4 billion rubles);
- ❖ federal budget funds – 4.6 billion rubles (JSC RusHydro – 4.3 billion rubles; and JSC RAO ES of the East – 0.3 billion rubles);
- ❖ other raised funds – 8.7 billion rubles (JSC RusHydro – 8.5 billion rubles; and JSC RAO ES of the East – 0.2 billion rubles);

Financing source structure



Compared with 2010, in 2011, there was a decline in the share of own financing sources for the Investment Program. This is due to the fact that cash represented a significant share of own financing sources. At the beginning of 2010, this totaled 45.5 billion rubles and with maximum use of it in 2010. Also, the equity capital share declined due to reduced profit and amortization in financial sources of the JSC RAO ES of the East Investment Program and a RUR 11.5 billion decrease in the investment component in the tariff set for JSC RusHydro (in 2010, the tariff investment component was 24.4 billion rubles and 12.9 billion rubles in 2011.) Therefore, in 2011, 43.6 billion rubles was fundraised to finance capital investment.

Investments with Expected Rate of Return Exceeding 10% per Year

Under its Investment Program, the Company invests in the generation facilities where the annual rate of return on investment exceeds 10%.

Boguchanskaya HPP

This power plant is under construction since 1980. The completion has a critical importance for the Nizhny Priangarye region and the Siberian economic region in whole. More than half of generated energy will be used at the Boguchanskij aluminum plant under construction.

The total project budget value is RUR 90,793 million. The main completion financing source are loans extended by Vnesheconombank (from December 2010) and equity capital of RusHydro and RUSAL. The first six hydropower units at Boguchanskaya HPP of 1,998 MW will be commissioned in 2012. Another three hydropower units of 999 MW and construction completion are planned for 2013.

Reconstruction of Sayano-Shushensky HPP named after P.S.Neporozhniy

The Company has been implementing the project for complete renovation of the Sayano-Shushensky HPP to eliminate the consequences of the 2009 accident. As of the reporting year end, the Company has restored four hydropower units. The full replacement of all ten hydropower units with new ones is scheduled for late 2014.

The total restoration cost of the Sayano-Shushensky HPP is RUR 40,981 million. The project is financed by Company's equity capital and by raising funds of RUR 4,832.1 million from the federal budget in 2009. The Company plans to secure leverage financing, if its financial sources prove to be insufficient to complete the above project.

Gotsatlinskaya HPP

The main purpose of the Gotsantlinskaya HPP construction is to supply energy and capacity of end-users within the deficient energy system of the North Caucasus and follow up on Order No. MF-P11-2461 of June 1, 2006 of Chairman of the Government of the Russian Federation to make efforts under the program to settle the political and social situation in Dagestan and improve its social status.

The completion and commissioning of a 100 MW capacity is planned in 2013. The total cost of Gotsantlinskaya HPP construction is RUR 11,106 million. The construction is financed by Company's equity and co-financing of RUR 4,631.4 million from the federal budget in 2011-2012.

Zagorskaya PSHPP-2

The purpose of the Zagorskaya PSHPP-2 construction is to reduce the shortage of demand management capacity at night-time dip of energy load and cover the peak energy loads and manage voltage and frequency.

As an important controlled operating reserve for the nuclear power plant and energy system, PSHPP will raise the NPP performance. Synchronized commissioning deadlines for PSHPP and NPP power units will increase the NPP's installed capacity factor by expanding capacity transmission via existing grids of UES of Russia, reduce transfer flows between the unified energy systems and cut the fossil fuel consumption in energy generation across UES of Russia.

Commissioning of the Zagorskaya PSHPP-2 in the Center energy system will be synchronized with the commissioning of power unit No. 4 at the Kalininskaya NPP in 2012.

The total construction cost is RUR 73,255 million. Financing is made from Company's equity and the federal budget funds of RUR 7,586.5 million raised in 2008-2009. The Company plans to secure leverage financing, if its financial sources prove to be insufficient to complete the above project.

Commissioning of the Zagorskaya PSHPP-2 is scheduled as follows: 420 MW in 2012, 210 MW in 2013, and 210 MW in 2014. The completion is planned in 2014.

Development of Renewable Energy Source Use

JSC RusHydro is the only Russian company that has a great potential in the use of renewable energy sources. The Company has a significant number of technological developments in the fields of tidal power plants, wind-driven power plants and the geo-thermal power industry.

At the same time, under existing legislation, as well as in the absence of actual mechanisms of State support for creating RES facilities, as established by the Russian Federal Law № 35-FZ "On Electric Power Industry" (from 26.03.2003), RES facilities do not meet economic efficiency requirements. This means that as a government-linked company, JSC RusHydro cannot include these projects in its investment programs.

In the context of the above situation, due to the need to carry out additional economic calculations and a review of economic efficiency in 2011, in accordance with comments by the Russian Ministry of Economic Development and Energy on the draft JSC RusHydro's 2012-2014 investment program, the Company suspended implementation of such investment projects as the Far East WPS, the Northern TPS and geo-thermal project development in the Kamchatka region.

Comprehensive Modernization Program for Generating Facilities

The comprehensive modernization program (CMP) covers key areas for upgrading the main generating equipment of the Company and automating basic production processes, based on the current technical condition of key assets and forecast dynamics for the future.

The program aims to upgrade the reliability and operational safety of the Company's existing generation facilities, as well as to increase installed capacity and electricity production.

In 2011, a comprehensive modernization program for 5 major JSC RusHydro plants was launched. As part of the program, the following contracts were signed:

- ❖ To comprehensively modernize 21 hydro-power turbines and hydro-power unit No. 24 at the Saratov HPP (the work will be performed through December 31st, 2024);
- ❖ To manufacture and deliver equipment for hydro-power units at the Volzhskaya HPP (10 hydro-power turbines and 22 hydro-power generators) and the execution of work / service (the work will be performed through December 31st, 2021);
- ❖ To manufacture and deliver equipment for 5 hydro-power units at the Novosibirskaya HPP and the performance of work / service (the work will be performed through May 31st, 2019);
- ❖ To manufacture and deliver equipment for 14 hydro-power units at the Zhigulevskaya HPP and execution of work / service (the work will be performed through December 31st, 2016);
- ❖ To comprehensively reconstruct and modernize, the technical re-equipment of the Kuban HPPs Cascade (under the contract, the guideline for carrying out work is through September 23rd, 2021).

INNOVATIVE DEVELOPMENT

During the reporting year, the Company continued to pursue the Innovative Development Program approved by the Company's Board of Directors in 2010.

The Program's key goals in 2011 included:

- ❖ Creating infrastructure to manage the Company's innovative development;
- ❖ Launching innovative development projects;
- ❖ Establishing an independent evaluation system for innovative development projects;
- ❖ Developing the Company's human resource potential as a priority;
- ❖ Launching the technological platform to pursue Prospective Technologies for Renewable Energy; and
- ❖ Establishing a system to monitor and select innovative projects for the upcoming reporting period.

Totally, the key performance indicators (KPI) for the investment development program have been met.

Key 2011 achievements:

- ❖ The Company launched seven projects funded from the special-purpose fund (in total, fifteen innovative development projects for a total of 2.5 billion rubles passed corporate procedures and reached the acquisition stage) and concluded twenty R&D agreements funded under the investment program;
- ❖ The Company completed registration and documentation for the technological platform for Prospective Technologies for Renewable Energy;
- ❖ The Company launched a pilot project to create a brand new type of wind power plant using the technological platform infrastructure;
- ❖ The Company launched major supporting projects to lay the foundation for efficient innovative management to develop local regulations governing the Company's innovative development; the project to develop the knowledge management information system for the Company, its SDCs and the much needed project management system;
- ❖ The Company developed and introduced the procedure for the expert evaluation of innovative development projects. To carry out independent expert evaluation, the Company established the Innovative Development Unit at the Company's Research and Technical Council and formed an Innovative Project Committee;
- ❖ The Company developed a management model for innovative development;
- ❖ The Company expands and maintains relationships with higher education institutions under its innovative development program; and
- ❖ The Company conducted negotiations with top development institutions and funds.

Funding Program Efforts

In 2011, innovative development was primarily funded from the Company's equity. Funds for one project were raised from the Russian Fund for Technological Development (hereinafter, RFTD) under the technological platform for Prospective Technologies for Renewable Energy, which the Company founded and supervises.

To efficiently fund the Program, the Company:

- ❖ Formed the Targeted Research and Technical Fund, reserving target funds on the basis of a 100%-owned subsidiary of JSC Research Institute for Energy Structures (NIIES) selected by the Program operator; and
- ❖ Developed and introduced Funding Rules for Innovative Development Program Projects, which define the activities of the Company and its SDCs across all stages of Program financing.

The Company's business plan contemplates funding innovative development projects from the Company's funds, which are transferred as a contribution to the Charter Capital of a 100%-owned subsidiary of the Company selected by the Program operator. For the above-mentioned purposes, the business plan defines the following funding schedule for the next several years:

Innovative Development Program Funding, million rubles

2011	2012F	2013F	2014F	2015F
3,245	3,505	4,075	4,837	5,120

The Company has established a system to select innovative projects.

Initial project review will be carried out by JSC RusHydro's strategic and innovative unit. The projects will be selected based on project funding rules, which define principles, procedures and selection criteria based on project categories (breakthrough or improvement).

R&D expenses over the last three years

Costs/Revenue RUR million 2009			Costs/Revenue RUR million 2010			Costs/Revenue RUR million 2011 ⁴		
Costs	Revenue	%	Costs	Revenue	%	Costs	Revenue	%
60.65	78,995.0	0.09	19.52	88,979.5	0.02	2,482.5	99,236	2.5

Key Program Efforts

Efforts to implement new technologies

In 2011, the Company launched new projects aimed at upgrading performance in the following areas (several projects simultaneously refer to the same area):

Safety and reliability: nine launched projects and five projects under review;

The projects are aimed at boosting safety and reliability of operation; preventive maintenance and monitoring; mitigating exposure to human factor risks; extend service life, etc.

New generation: two projects launched;

Development of new energy generation types.

Energy efficiency: six projects launched and two projects under review;

Upgrades of existing energy generation technologies; cutting losses in energy, heating and water; and energy recuperation;

Environment: six projects launched and one project under review; mitigating exposure to harmful man-made environmental impact; environmental reclamation and restoration, etc;

Water resources: six projects launched and one project under review;

Technologies related to water resource management, storage, purification and preparation of water and efficient water resource usage;

Construction materials and technologies: five projects launched and five projects under review;

Design methods, development of new materials, methods and their application, new technologies for facility construction, which enables considerable cost-cutting and reductions in construction time;

Energy generation materials and technologies: two projects launched and two projects under review;

New construction materials, technologies for processing and upgrading, which enable cost-cutting and the enhancement of generation performance;

IT projects: six projects launched;

Knowledge management systems, production process management systems, systems for multi-dimensional simulation and project management;

HR development: three projects launched;

Projects aimed at innovative training of employees, including prospective employees at schools; and

Corporate management: four projects launched and 1 project under review;

Innovative projects focused on corporate management and various business support processes.

Several innovative development projects launched and implemented by the Company enabled it to develop innovative technologies and technical solutions which emerged as new solutions on the domestic and/or international market (breakthrough innovations). The most remarkable breakthrough projects included:

Development of new types of power equipment and structures for wave power plants

The Company developed a pioneering experimental wave power plant VOLNES-30 with an installed capacity of 30 kW, which uses an advanced efficient low pressure air turbine (referred to as the “orthogonal turbine”).

The above-type of plant may be installed in the sea near the shore, and eventually, on shore, dykes and embankments and at tidal power plant dams, etc.; used to generate energy for local customers or energy systems and to quench waves at these structures.

Development and implementation of asynchronous high-voltage generators to enhance the Company’s HPPs

The use of asynchronous variable speed generators enables the Company to meet the challenge of upgrading the performance and reliability of basic equipment at the HPPs and PSPPs. In 2011, the Company developed guidelines on installing asynchronous and high-voltage generators. In 2012-2013, the Company plans to create the first experimental unit and install several generators at new corporate facilities.

⁴ This is a projected value, 2011 revenue includes SDCs involved in the program

Development of a pump storage plant with underground building and lower pool location (PSHPP-UL)

The concept of a pump storage plant with underground building and lower pool location (PSHPP-UL) was developed in 2011. The process of concept development involved the selection of several sites for the projected PSHPP-UL, main project technical parameters, possible structure compositions and the main technical equipment. The project also defined PSHPP-UL construction technologies.

The project offered new solutions to boost the construction performance (cut nominal construction costs and increase energy efficiency of PSHPP-UL).

Experimental unit: Geo-thermal 2.5 MW power generating unit with a binary cycle at the Pauzhetskaya GeoPP

This project was implemented to create Russia's first geo-thermal binary cycle energy unit. Streamlining the operating technology of this energy unit and selecting reasonable modes will considerably enhance the performance of geo-thermal power plants. New developments and solutions under this project may be successfully used further both in the geo-thermal energy industry and for useful energy generation by utilizing low-potential energy, which is usually "discharged" into the environment by many power-consuming industries, including: metallurgy and cement, etc.

Cooperation with leading higher education institutions, research organizations and small- and medium-sized businesses

The Board of Directors has developed and approved the Concept of Cooperation with Sector-Based Research and Academic Institutes and Universities.

In 2010, 471 students completed an internship at JSC RusHydro, including 47 students who did their internship programs in the Company's research and design institutes. As a result, the Company employed 39 students, including 13 graduates who were employed by its research institutes.

RusHydro concluded cooperation agreements with the following industry-based universities:

- ❖ Moscow Energy Institute;
- ❖ Moscow State Construction University;
- ❖ Siberian Federal University; and
- ❖ St. Petersburg State Polytechnical University.

RusHydro has entered into a Strategic Partnership Agreement with Siberian Federal University. Currently, the Company is negotiating similar agreements with Far-Eastern Federal University and Northern (Arctic) Federal University. A new cooperation agreement with Moscow Energy Institute has been approved.

Involvement in the technological platform for prospective technologies in renewable energy and other technological platforms

In 2011, the Company completed registering and incorporating its technological platform (TP).

The following TP governing bodies were established: management – the Management Body and the Expert Council; operation – the Coordination Council and Work Groups across all technical areas of TP operation (hydro-power, wind energy; tidal energy, wave and flood energy; solar energy; geo-thermal energy; energy storage; hydrogen energy and other RES technologies; and energy supply systems based on comprehensive RES applications).

Proposals from TP members were used to generate the 2015 draft R&D schedule (more than 50 projects).

Company and TP staff members carried out negotiations with Russia's top development institutes and foundations. They executed joint protocols, which defined further efforts to be made for signing cooperation agreements. In December 2011, RusHydro signed a Strategic Partnership and Cooperation Memorandum with the Russian Fund for Technological Development (RFTD). Subject to this Memorandum, the RFTD shall provide strategic support to projects recommended by the Platform. It also contemplates that the Platform will assist the RFTD in expert evaluations of fund-raising proposals on relevant areas of the Platform's operations reviewed by the RFTD: expert evaluation services will be provided by individual experts and legal entities proposed by the Platform for valuable consideration. To supervise cooperation under the Memorandum, the parties will establish internal management bodies and units.

The Platform is responsible for implementing the breakthrough innovative project "Closed Wind Turbine" CWT. The project's business purpose is to set up production of 100 kW wind power plants. Targeted users for energy plants based on these wind energy units include remote and isolated consumers who have no access to energy generated by existing grids.

Project financing involves leverage financing from the RFTD.

The CWT project fully complies with goals and objectives of the Technological Platform for Prospective Technologies in Renewable Energy, which is supervised by JSC RusHydro. Industry experts view it as a "breakthrough" project for the Russian industry. CWT project outcomes are expected to considerably increase existing global levels for wind energy technologies.

FINANCIAL RESULTS

This section is prepared based on the consolidated financial statements of RusHydro Group (hereinafter “the Group”), in accordance with International Financial Reporting Standards (IFRS).

2011 milestones that affected the Group’s financial performance included:

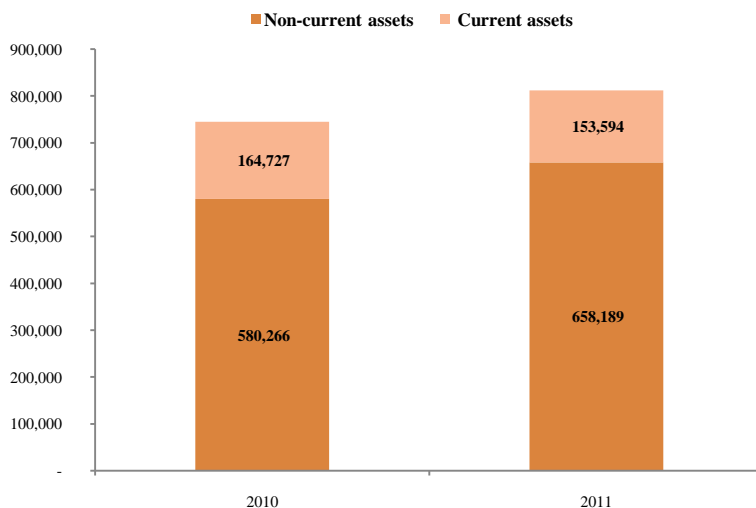
- ❖ In November 2011, the Company signed a loan agreement with OJSC Sberbank of Russia to open a closed-end credit line to finance current, financing and investment activities with a RUR 40,000 million limit and a period for granting the loan till January 31st, 2012;
- ❖ In April 2011, the Company placed non-convertible interest-bearing series 01 and 02 bonds with a nominal value of RUR 10,000 million and RUR 5,000 million, respectively.

Corporate assets, equity and liabilities

RUR million	2010	2011
Total assets	744,993	811,783
Non-current assets	580,266	658,189
Current assets, including:	164,727	153,594
<i>Non-current assets and assets of disposal group classified as held for sale</i>	55,193	28,470
Total liabilities	744,993	811,783
Equity	539,568	525,659
Non-current liabilities	106,194	159,965
	99,231	126,159
Current liabilities, including:		
<i>Liabilities of disposal group classified as held for sale</i>	29,506	13,093

Total corporate assets increased 9.0% in 2011 or RUR 66,790 million. At the end of the reporting year, total corporate assets stood at RUR 811,783 million.

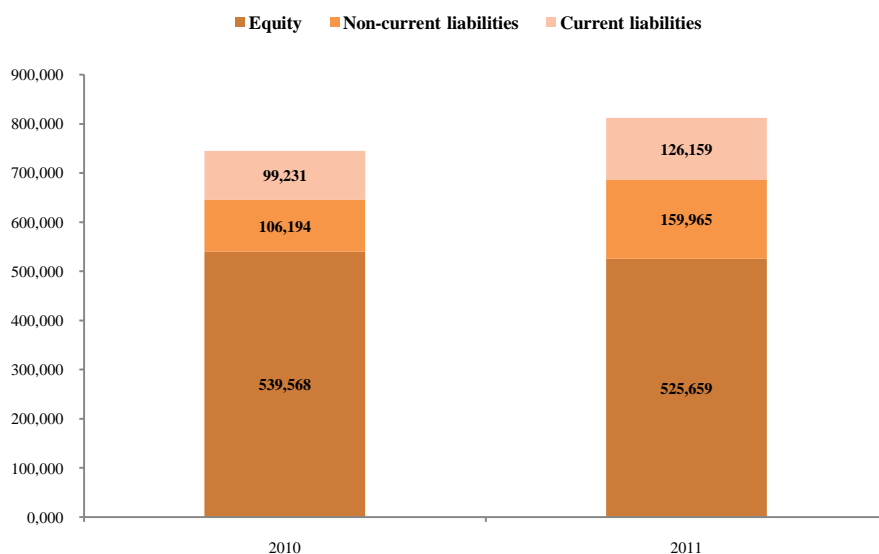
Assets structure, RUR million



Property, plant and equipment (hereinafter “PPE”) is the principal component of Group assets (70.0% of total assets or RUR 568,629 million). The PPE share in total assets remained almost unchanged from the 2010 level (a 0.4% increase).

As of December 31st, 2011, equity comprised 64.8% of total equity and liabilities. At the end of 2011, the Group’s equity was RUR 525,659 million (compared with RUR 539,568 million as of December 31st, 2011), representing a 2.6% decline.

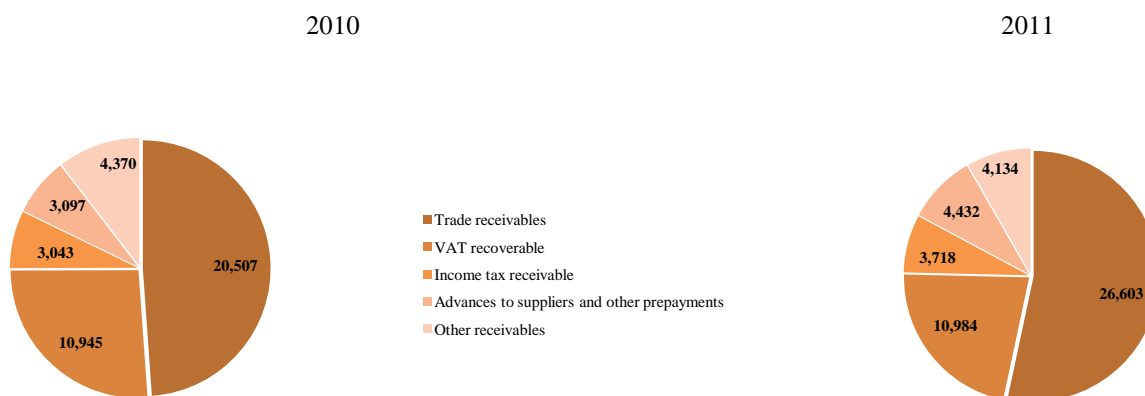
Equity and liabilities structure, RUR million



As of December 31st, 2011, total corporate liabilities equaled RUR 286,124 million, a 39.3% increase compared to the beginning of the reporting year. Current liabilities increased RUR 26,928 million (or 27.1%) and non-current liabilities rose RUR 53,771 million (or 50.6%).

The total liabilities/net assets ratio reached 54.4% as of December 31st, 2011, compared with 38.1% as of December 31st, 2010.

Accounts receivable structure, RUR million



During the reporting period, accounts payable and accruals increased RUR 12,472 million and stood at RUR 40,030 million at the end of 2011.

Accounts payable and accruals structure

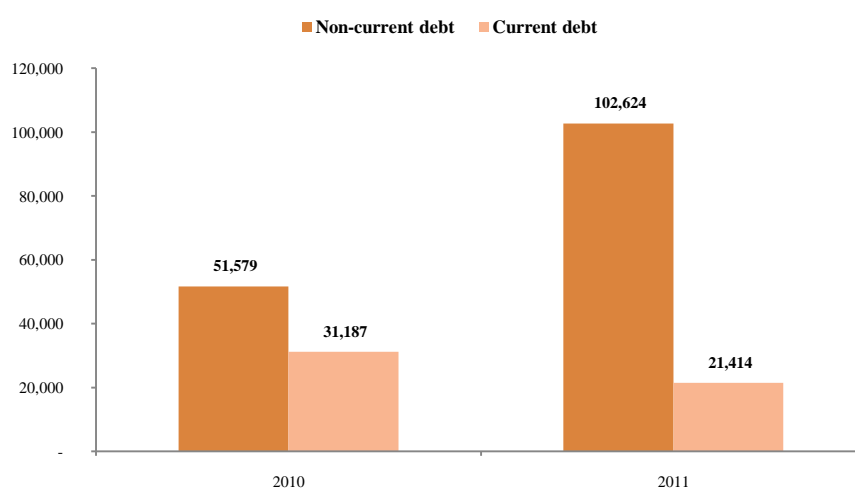
RUR million	As of December 31 st , 2010	As of December 31 st , 2011
Trade payables	15,011	22,375
Advances received	4,601	6,101

Settlements with personnel	5,376	5,562
Dividends payable	44	54
Other accounts payable	2,526	5,938
Total accounts payable and accruals	27,558	40,030

As of December 31st, 2011, the Group had a debt to the Russian Federation (represented by the Federal Agency for State Property Management) in the amount of RUR 2,649 million, with respect to an additional share issue by the Company's subsidiary, JSC Ust-Srednekanskaya HPP, and RUR 748 million with respect to an additional share issue of the Company's subsidiary, JSC RAO Energy System of the East (as of December 31st, 2010, there had been no such debt).

During 2011, the Group increased non-current debts RUR 51,045 million and decreased current debts RUR 9,773 million, respectively.

Current and non-current debt structure, RUR million

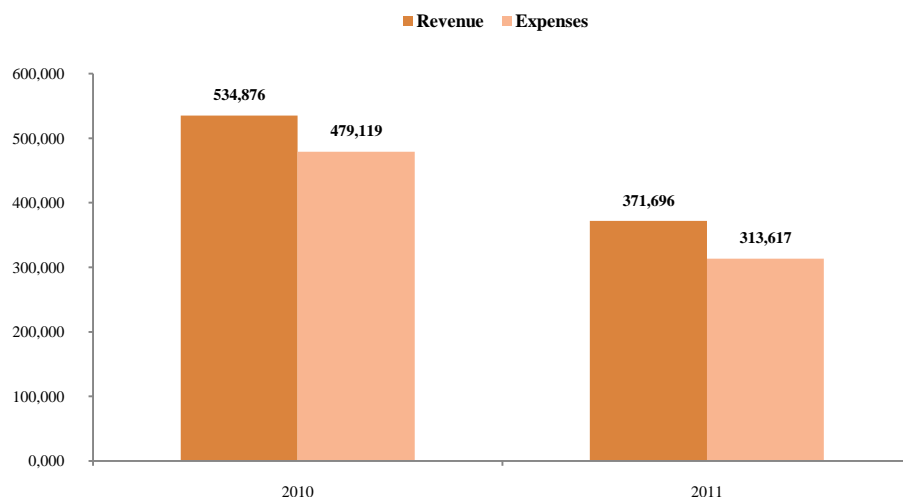


As of December 31st, 2011, the Group's principal creditors were:

- ❖ OJSC Sberbank of Russia (non-renewable line of credit for financing of the operating, financial and investment activities);
- ❖ Holders of Euro-bonds issued by RusHydro Finance Ltd (October 2010);
- ❖ Holders of Russian bonds issued by the Company (April 2011);
- ❖ OJSC Rosbank;
- ❖ OJSC Gazprombank;
- ❖ Holders of unsecured bonds issued by OJSC Yakutsk Energo;
- ❖ The European Bank for Reconstruction and Development (EBRD) (a loan to fund the Program to upgrade and re-equip the Volzhsko-Kamskiy Cascade HPPs);
- ❖ EM Falcon Ltd (Morgan Stanley Bank International Ltd) (From April 1st, 2011, the Company has revised the terms of loan agreements with Morgan Stanley Bank International Ltd. This has lowered rates on loans from 8.75% to 8.65% on the loan due in 2013 and from MOSPRIME +1.50% to MOSPRIME +1.40 % on the loan due in 2014);
- ❖ The municipal authority of the Kamchatka Region (the loan was used to finance construction of the Verhne-Mutnovskaya GeoPP); and
- ❖ CF Structured Products B.V. (the loan was used to finance construction of the Kashkhatau HPP).

In 2011, the Group's revenue decreased RUR 163,982 million (or 31.1%) compared with 2010 and totaled RUR 362,599 million.

Revenue and expenses structure, RUR million

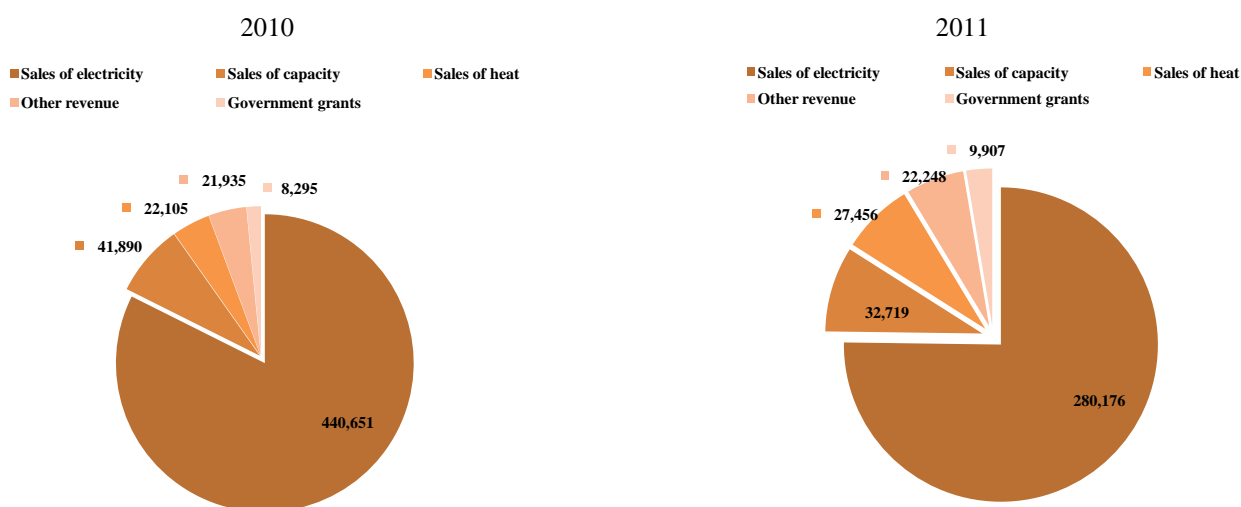


Expenses dropped 34.5% from RUR 479,119 million (in 2010) and stood at RUR 313,617 million. In 2011, the Group earned an operating profit of RUR 51,116 million, which represents a 67.1% increase compared with 2010. The Group's operating margin was 14.1%.

In 2010, there were no significant changes in the revenue structure.

Revenue from electricity sales accounted for 77.3% of total revenue. Capacity sales decreased by RUR 9,171 million y-o-y. In 2011, heat energy sales increased RUR 5,351 million compared with 2010, other revenue increased RUR 313 million.

Revenue structure, RUR million

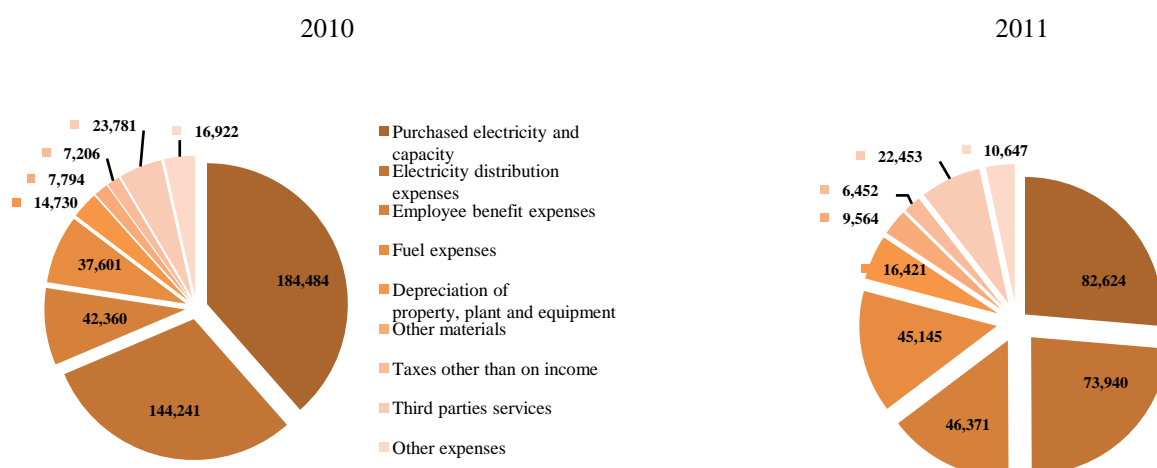


The principal drivers that affected revenue were:

- ❖ An increase in the share of sales at unregulated prices according to the liberalization schedule for the wholesale electricity and capacity market; electric energy sales on the DAM have grown 1.7 times;
- ❖ A RUR 11,486 million decline in the investment bonus on the price of power.

In 2011, Group expenses declined RUR 165,502 million. The decline was primarily related to lower expenses on purchased electricity (capacity) and lower electricity distribution costs, which decreased RUR 101,860 million and RUR 70,301 million, respectively.

Expenses structure, RUR million



In 2011, there was a 22.7% increase in other materials expenses, depreciation of property, plant and equipment grew 11.5% and the employee benefit expenses increased 9.5%; at the same time, fuel expenses increased 20.1%.

As a result, the Group's 2011 profit was RUR 29,493. The Group's profit margin was 8.1% during the reporting year.

Performance results

RUR million	2010	2011
Operating profit	30,585	51,116
Profit before income tax	18,494	43,712
Profit for the period	10,399	29,493
Earnings per ordinary share, RUR	0.0350	0.1146

In 2011, EBITDA (RAS) decreased RUR 2.215 million compared with 2010 and totaled RUR 83,418 million.

Cash flows

RUR million	2010	2011
Net cash generated by operating activities	50,515	64,669
Net cash used in investment activities	(89,988)	(80,965)
Net cash generated by financing activities	13,397	35,168
Decrease/increase in cash and cash equivalents	(25,967)	18,949

In 2011, the Group's net cash generated by operating activities increased to RUR 64,669 million against RUR 50,515 million in 2010.

Net cash used in investment activities decreased RUR 9,023 million and stood at RUR 80,965. This can principally be attributed to the lower purchase cost of securities, despite an increase in the acquisition costs of property, plant and equipment.

Cash flows from the Group's financing activities increased 162.5% to RUR 35,168 million (from RUR 13,397 million during the previous year). The principal factor driving this increase was raising RUR 23,520 million under the Loan Agreement with OJSC Sberbank of Russia.

As a result, in 2011, cash flow was positive and stood at RUR 18, 949 million – due to reducing net cash used in investment activities and an increase in net cash generated by operating and financing activities.

As of December 31st, 2011, cash and cash equivalents totaled RUR 47, 414 million (compared with RUR 28,465 million as of December 31st, 2010).

CORPORATE GOVERNANCE

Corporate Governance Principles

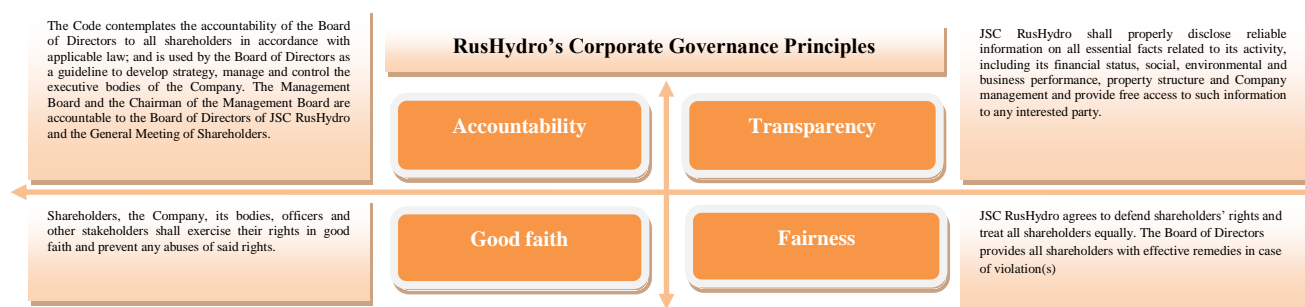
As a public company, JSC RusHydro views an effective and well-established corporate governance system as critical to enhancing corporate capital value, boosting goodwill toward the Company and reducing investment risks.

In 2011, the Consortium of the Russian Institute of Directors and Expert RA Rating Agency increased JSC RusHydro's National Corporate Governance Rating to 7+, which evaluates it as a company with well-developed corporate governance practices. This ranking is one of the highest for Russian companies.

The Company has low risks related to corporate governance practices, complies with Russian legal requirements related to corporate governance and follows most recommendations of the Corporate Governance Code and some recommendations of best international corporate governance practices.

National corporate governance rating 7+

The Company's corporate governance system is based on principles set forth in JSC RusHydro's Code of Corporate Governance.



Shareholder Relations

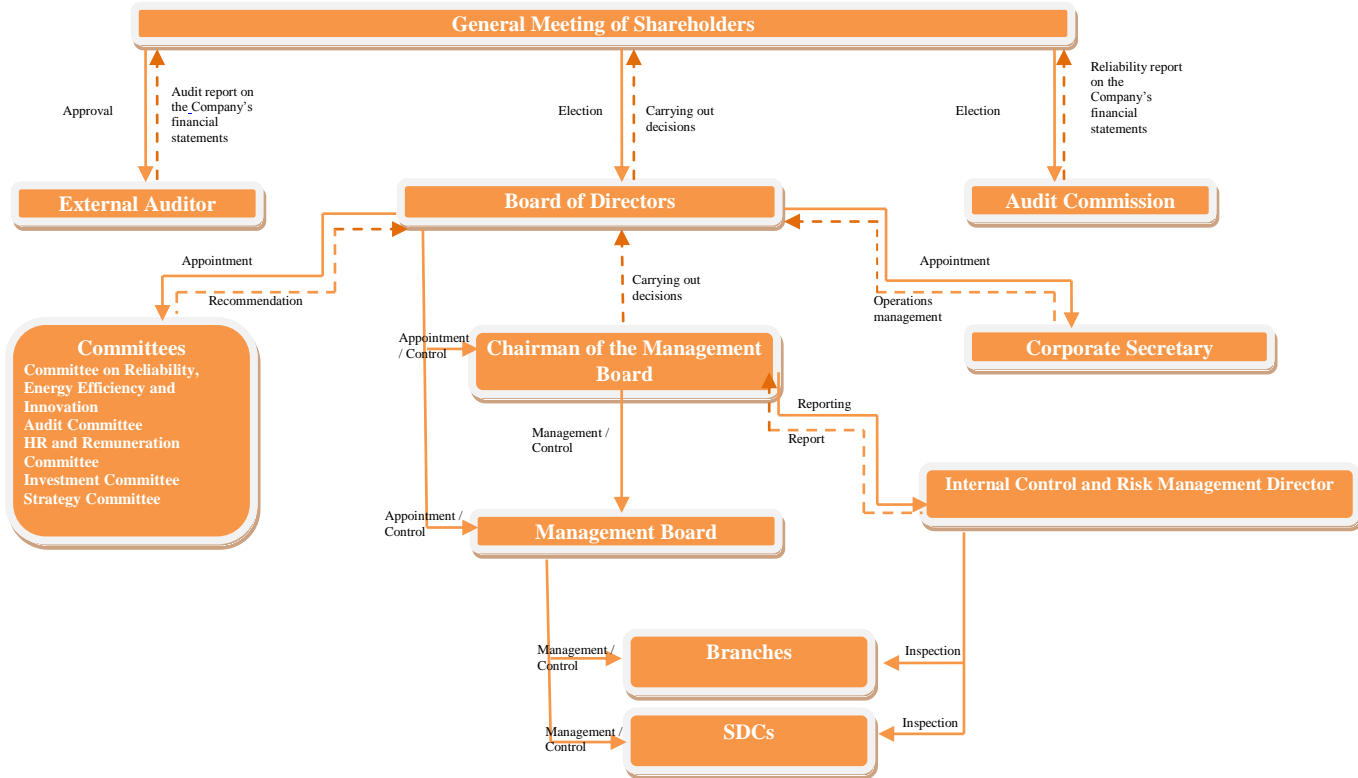
JSC RusHydro's shareholders include more than 300,000 Russian and foreign investors. The Company seeks to provide all shareholders with equal and prompt access to the most relevant information on major corporate activities. News, financial and industry information, securities value updates and other essential materials are posted on the Company's web site. Shareholders who have any questions related to their rights can call a hotline number or send an e-mail.

Web site	www.rushydro.ru , www.eng.rushydro.ru
Official print media	<i>Izvestia</i> newspaper
Hotline for shareholders	8-800-555-9997
E-mail	rushydro@rost.ru

Global depository receipt holders may contact The Bank of New York Mellon, a depository bank, or the Company's Corporate Management Department and IR Department.

Management and Control Bodies

Organizational Structure of the Company's Management and Control Bodies



General Meeting of Shareholders

The General Meeting of Shareholders is the Company's highest management body; the competency of the General Meeting of Shareholders is defined by the Russian Federal Law on Joint Stock Companies and RusHydro's Articles of Association. The procedure for preparing and holding the meeting and the shareholders' decision-making process is set forth in the Regulations on Convening and Holding the General Meeting of Shareholders.

The decision to convene the General Meeting of Shareholders is made by the Board of Directors at its own initiative or at the request of the Audit Commission, the Auditor or shareholder(s) owning at least ten percent of the Company's voting shares at the date of said request.

The shareholders shall be given notice of the General Meeting at least 30 days prior to the date of the General Meeting; and if the agenda of an Extraordinary General Meeting includes items on electing members of the Board of Directors, such notice shall be given at least 70 days before said General Meeting.

A basic shareholder right involves the opportunity to vote on agenda items at the General Meeting of Shareholders, which may be executed either by attendance at the Meeting or by sending ballots by mail.

To observe the rights of depository receipt holders to vote on the agenda at the General Meeting of Shareholders, JSC RusHydro cooperates with the depository bank (the Bank of New York Mellon), as well as with JSC ING BANK (EURASIA), its custodian.

In 2011, the Company held an Annual General Meeting of Shareholders. Information on the addressed issues is set forth in the Appendix.

The Board of Directors

The Board of Directors is a collegial body responsible for general corporate management. The Board of Directors develops JSC RusHydro's strategy and controls its executive bodies to maintain the rights and lawful interests of the Company's shareholders.

Members of the Board of Directors are elected by a cumulative vote at the General Meeting of Shareholders for the period up to the next General Meeting of Shareholders. Members may be re-elected an unlimited number of times. The right to propose a candidate for the Board of Directors shall be vested on shareholders who hold at least two percent of the Company's voting shares in total.

The Board of Directors operates in accordance with Russian laws, the Articles of Association, the Corporate Governance Code and Regulations on Convening and Holding Meetings of the Board of Directors.

JSC RusHydro's Articles of Association stipulate that the following issues fall within the exclusive competence of the Board of Directors: defining priority business areas, approving long-term corporate development programs, including: approving the investment program and approving (updating) the Company's key performance indicators and business plan.

Changes in the composition of the Company's Board of Directors result from the requirements on the mandatory election of the Board of Directors at the General Meeting of Shareholders.

Members of the Board of Directors before the 2011 Annual General Meeting of Shareholders:

- ❖ Shmatko Sergey Ivanovich (Chairman);
- ❖ Dod Evgeny Vyacheslavovich;
- ❖ Ballo Anatoly Borisovich;
- ❖ Kovalchuk Boris Yurievich;
- ❖ Beloborodov Sergey Sergeyeovich;
- ❖ Zimin Victor Mikhailovich;
- ❖ Volkov Eduard Petrovich;
- ❖ Kudryavy Victor Vasilyevich;
- ❖ Kurtser Grigoriy Markovich;
- ❖ Kutyin Nikolay Georgievich;
- ❖ Malyshev Andrey Borisovich;
- ❖ Seliverstova Marina Valeryevna;
- ❖ Sharipov Rashid Ravelyevich.

The Board of Directors holds regular meetings at least once per month in accordance with the approved Action Plan. In 2011, the Board held 24 meetings, both in person and in the form of videoconferencing/correspondence.

The current 13-member Board of Directors was elected June 30th, 2011 by the General Meeting of Shareholders.

The Board of Directors includes six independent directors defined in accordance with the Code of Corporate Conduct and requirements of the UK Corporate Governance Code.

Members of the Board of Directors

Name and Position	Status of the Member of the Board of Directors	Date of Birth	Citizenship	Education	Curriculum Vitae	Ownership of Company Shares
TATSIY Vladimir Vitalyevich Chairman of the Board of Directors <i>First Vice President, JSC Gazprombank</i>	Non-executive director	1960	RUSSIAN FEDERATION	Moscow Power Engineering Institute Ph.D. in Economics	2003-2007: Vice President, Head of the Depository Center, Joint Stock Bank of the Gas Industry CJSC Gazprombank 2007-2009: First Vice President, Head of the Depository Center, JSC Gazprombank From 2009 – First Vice President of JSC Gazprombank Current positions: Chairman of the Board of Directors at JSC Saint Petersburg International Mercantile Exchange; JSC Clearing and Depository Company; member of the Board of Directors at JSC Regional Investment Company; member of the Russian National Association of Securities Market Participants (NAUFOR); Holding IDGC; JSC CFR; JSC MICEX; a member of the Supervisory Board at the National Settlement Depository; and a member of the Guardian Board at the Moscow Power Engineering Institute (Technical University)	Holds no shares in the Company
DANILOV-DANILYAN Victor Ivanovich Deputy Chairman of the Board of Directors <i>Director, Water Engineering Institute of RAS</i>	Independent Director	1938	RUSSIAN FEDERATION	Lomonosov Moscow State University Ph.D. in Economics, Professor, Member of the RAS	From 2003: Director, Water Engineering Institute of the Russian Academy of Science (RAS) From 2006: Head of the Water Resources Management Chair for the Ecological Department at the Russian University of Peoples' Friendship From 2007: Chief Editor of the Encyclopedia Publishing House, Infra-M Publishing Group Current positions: Chairman of the Board of Directors at Sustainable Development Fund	Holds no shares in the Company
BELOBORODOV Sergey Sergeyeovich <i>General Director LLC Corporation GAZENERGOPROM</i>	Non-executive Director	1967	RUSSIAN FEDERATION	Moscow Institute of Physics and Technology (MS in Operations Management, School of Business, Michigan Technological University)	2003-2005: General Manager at LLC EuroSibEnergo 2005-2006: Advisor to the Board of Directors at LLC Basic Element 2006-2007: First Deputy General Director LLC Corporation GAZENERGOPROM From 2007: General Director at LLC Corporation GAZENERGOPROM Current positions: Member of the Board of Directors at JSC ATC, JSC CFR and Chairman of the Supervisory Board at NP Market Council	Holds no shares in the Company
DOD Evgeny Vyacheslavovich <i>Chairman of the Management Board of RusHydro</i>	Executive Director	1973	RUSSIAN FEDERATION	Moscow Aviation Institute (State Technical University) MAI Ph.D. in Economics	2000-2008: General Director and Chairman of the Management Board (May 2008-2009) at JSC INTER RAO UES From November 2009: Chairman of the Management Board of JSC RusHydro Current positions: Member of the Board of Directors at JSC INTER RAO UES, JSC Irkutskenergo, JSC CFR; JSC ATC; JSC SO UES; member of the Supervisory Board at JSC All-Russian Regional Development Bank, NP Hydro-power of Russia; member of the Management Board at the Russian Union of Industrialists and Entrepreneurs; member of the Management Council at the International Center for	Interest in the Company's charter capital: 0.13 % Interest in the Company's ordinary shares: 0.13%

ZIMIN Victor Mikhailovich <i>Prime Minister of the Republic of Khakassia</i>	Non-executive Director	1962	RUSSIAN FEDERATION	Tomsk State Architecture and Construction University	Sustainable Energy Development 2004-2007: Deputy Chief for Construction — newly constructed units of the Abakan Department of the Krasnoyarsk Railway Division Chief — OAO Russian Railways branch office 2007-2009: Russian State Duma Deputy in the Federal Assembly From 2009: Prime Minister of the Government of the Republic of Khakassia	Holds no shares in the Company
KOVALCHUK Boris Yurievich <i>Chairman of the Management Board, JSC INTER RAO UES</i>	Independent Director	1977	RUSSIAN FEDERATION	Saint Petersburg State University	2006-2009: Assistant to the First Deputy Prime Minister of Russia Dmitry Medvedev and Director of the Department for Priority National Projects for the Russian Government 2009: Member of the Management Board and Deputy General Director for the Organizational Development of Rosatom From 2009: Chairman of the Management Board at JSC INTER RAO UES Current positions: Chairman of the Board of Directors at JSC OGK-1, JSC Kambaratinskaya HPP, JSC Energy Supply Company, JSC Altayenergosbyt, JSC Mosenergosbyt, JSC Saratovenergosbyt, JSC Tambovenergosbyt, JSC Petersburg Energy Supply Company, member of the Board of Directors at JSC INTER RAO UES, JSC ATC, LLC Inter RAO – WorleyParsons, JSC Irkutskenergo, and the Russian Union of Industrialists and Entrepreneurs	Holds no shares in the Company
KUDRYAVY Victor Vasilyevich <i>Advisor to the President, JSC Eurocement Group</i>	Independent Director	1937	RUSSIAN FEDERATION	Ivanovo Power Engineering Institute Ph.D. in Engineering Honored Russian Energy Industry Worker	From 2005: Advisor to the President, JSC Eurocement Group Current positions: Member of the Board of Directors at JSC Holding IDGC	Interest in the Company's charter capital: 0.00025% Interest in the Company's ordinary shares: 0.00025%
KURTSEV Grigory Markovich <i>President JSC All-Russian Regional Development Bank</i>	Non-executive Director	1980	RUSSIAN FEDERATION	Finance Academy under the Russian Government	2007-2009: Department Chief of Financial Administration Treasury Resource Management, Deputy Treasury Chief - Foreign Trade Bank Department Chief of the Financial Administration Treasury Resource Management, JSC VTB From 2010: Director and President at JSC All-Russian Regional Development Bank Current positions: Member of the Board of Directors at JSC INTER RAO UES, RUSENERGO FUND LIMITED, JSC RAO ES of the East, JSC Far Eastern Bank, member of the Fund Council at NEFTEGARANT	Holds no shares in the Company
LEBEDEV Victor Yurievich <i>Deputy Department Director, Russian Ministry of Economic Development</i>	Non-executive Director	1980	RUSSIAN FEDERATION	St. Petersburg Trade and Economy Institute	From 2006: Different positions at the Russian Ministry of Economic Development	Holds no shares in the Company
MALYSHEV Andrey Borisovich <i>Deputy Chairman of the</i>	Non-executive Director	1959	RUSSIAN FEDERATION	Moscow Power Engineering Institute Ph.D. in Sociology and Science	2006-2007: Deputy Head at the Federal Atomic Energy Agency 2007-2011: Member of the Management Board, Deputy General Director at Rosnanotech From 2011: Deputy Chairman of the Management Board, JSC ROSNANO (formerly, Rosnanotech)	Holds no shares in the Company

Management Board, JSC ROSNANO					Current positions: Deputy Chairman of the Board of Directors at JSC FGC UES, JSC TREKPOR TECHNOLOGY, Chairman of the Board of Directors at JSC Prepreg-SKM, JSC Galileo-Nanotech, LLC SITRONICS-Nano, LLC Lithium-Ion Technology, LLC NTFarma, LLC Hemacore, LLC SinBio, member of the Board of Directors at JSC CECM and member of the Management Board at the Infrastructure Educational Programs Fund	
POLUBOYARINOV Mikhail Igorevich <i>Deputy Chairman of Vnesheconombank</i>	Independent Director	1966	RUSSIAN FEDERATION	Moscow Finance Institute Ph.D. in Economics	2003-2009: Deputy General Director at JSC Aeroflot – Russian Airlines 2009-2011: Director of the Infrastructure Department of Vnesheconombank From 2011: Deputy Chairman of Vnesheconombank Current positions: Member of the Board of Directors at JSC Health Resorts of the North Caucasus and the Infrastructure Educational Program Fund	Holds no shares in the Company
SHARIPOV Rashid Ravelyevich <i>Deputy Director General LLC KFK-Consult</i>	Independent Director	1968	RUSSIAN FEDERATION	Moscow State Institute for International Relations West California Law School Master Degree in Law	From 2006: Deputy Director General at LLC KFK-Consult Current positions: Member of the Board of Directors at JSC FGC UES, JSC Irkutskenergo and a member of the Supervisory Board at JSC All-Russian Regional Development Bank and JSC SO UES	Holds no shares in the Company
SHISHIN Sergey Vladimirovich <i>Senior Vice President JSC VTB Bank</i>	Independent Director	1963	RUSSIAN FEDERATION	Higher Border Guard College of the KGB USSR; University of RGB USSR Russian Government Services Academy under the Russian President Ph.D. in Economics	From 2007: Senior Vice President at JSC VTB Bank, Professor, Deputy Chair of the Economic Theory Department at the Russian State Humanities University, Vice President of the Russian Society of Economists Current positions: Deputy Chairman of the Management Board at JSC Rosneft	Interest in the Company's charter capital: 0.00003% Interest in the Company's ordinary shares: 0.00003%

Committees of the Board of Directors

Committees of the Board of Directors are established to preliminarily review the most critical matters that fall under the competence of the Board of Directors. The Committees must report to the Board of Directors. The Board of Directors is responsible for ensuring regular and efficient cooperation with its Committees. Reports on the Committees' operations are reviewed annually at meetings of the Board of Directors.

The Committees include persons with expertise and knowledge in relevant areas, which enhances the performance and quality of Board of Directors' activities. The number of members on each Committee is defined to enable a thorough discussion of addressed issues and to reasonably consider different points-of-view. The Committees acts in accordance with the Regulations on Committees of the Board of Directors.

In accordance with best corporate governance practices, the Audit Committee and the HR and Remuneration Committee shall include only independent directors who are members of the Board of Directors.

In 2011, the Company introduced the practice of holding joint committee meetings to ensure a more detailed and efficient review of issues. Most meetings are held in person.

The Strategy Committee

The Strategy Committee is responsible for enhancing the Company's long-term performance and developing recommendations on upgrading the current growth strategy.

The Chairman and Committee members were elected by a resolution of the Board of Directors of July 22, 2011.

Members of the Strategy Committee

Name	Position
MALYSHEV Andrey Borisovich	Chairman of the Strategy Committee Member of the Board of Directors Deputy Chairman of the Management Board, JSC ROSNANO
BELOBORODOV Sergey Sergeyevich	Member of the Board of Directors General Director of LLC Corporation Gazenergom
GAVRILOV Vsevolod Valeryanovich	Head of the Division of Project Management in Energy Conservation and Natural Resource Management Sectors of Sberbank of Russia
GOREV Evgeny Evgenievich	Member of the Management Board
DANILOV-DANILYAN Victor Ivanovich	Deputy Chairman of the Board of Directors Director, Water Engineering Institute of the Russian Academy of Science (RAS)
MEZHEVICH Valentin Yefimovich	Member of the Federation Council of the Russian Federal Assembly, First Deputy Chairman of the Natural Monopoly Committee of the Federation Council
POLUBOYARINOV Mikhail Igorevich	Member of the Board of Directors Deputy Chairman of Vnesheconombank
RIZHINASHVILI George Ilyich	Deputy Chairman of the Management Board
SKRYABIN Dmitry Igorevich	Senior Dealer of the Equity Management Department at VTB Capital
TIKHONOVA Maria Gennadievna	Director of the Department for Economic Regulation and Property Relations at the Fuel and Energy Sector of the Russian Ministry of Energy
YUGOV Alexander Sergeevich	Head of the Department of Oil and Gas Industry and Raw Materials Division of the Infrastructure Sector Management of the Federal Property Management Agency

In 2011, the Committee held eighteen meetings, including four joint meetings with the Investment Committee and the Reliability, Energy Efficiency and Innovation Committee. The meetings developed recommendations for the Board of Directors on approving the 2012-2025 Program for Integrated Modernization of RusHydro's Generating Facilities and a list of priority projects implemented under RusHydro's Innovative Development Program and the Cooperation Concept with sector-based research and academic institutes on the matters related to the Program implementation.

The Audit Committee

The Committee is responsible for control by the Board of Directors over the Company's financial and business activities; the Committee also develops recommendations for selecting an independent audit organization and the procedure for cooperating with the Audit Commission and the external auditor.

The Chairman and Committee members were elected by a resolution of the Board of Directors on July 22, 2011.

Members of the Audit Committee

Name	Position
DANILOV-DANILYAN Victor Ivanovich	Chairman of the Audit Committee Deputy Chairman of the Board of Directors Director, Water Engineering Institute of the Russian Academy of Science (RAS)
KUDRYAVY Victor Vasilyevich	Member of the Board of Directors Advisor to the President, JSC Eurocement Group
POLUBOYARINOV Mikhail Igorevich	Member of the Board of Directors Deputy Chairman of Vnesheconombank

In 2011, the Committee held eight meetings. The main issues addressed at meetings included: the preliminary review of the Company's financial statement (prepared under RAS and IFRS), the development of recommendations to the Board of Directors for selecting an external auditor and defining service cost and the assessment of fairness/independency of agreements concluded with the Auditor, as well as control over the use of the Company's insider information.

The HR and Remuneration Committee

The HR and Remuneration Committee of the Board of Directors was established to hire highly qualified managers and create necessary incentives for their successful work. The Committee is responsible for developing principles and criteria to define remuneration and bonuses payable to members of the Board of Directors, the Chairman of the Management Board and Management Board members, as well as for issuing recommendations (reports) to the Board of Directors on the above-mentioned topics.

The Chairman and Committee members were elected by a resolution of the Board of Directors on July 25, 2011.

Members of the HR and Remuneration Committee

Name	Position
DANILOV-DANILYAN Victor Ivanovich	Chairman of the HR and Remuneration Committee Deputy Chairman of the Board of Directors Director, Water Engineering Institute of the Russian Academy of Science (RAS)
POLUBOYARINOV Mikhail Igorevich	Member of the Board of Directors Deputy Chairman of Vnesheconombank
SHARIPOV Rashid Ravelyevich	Member of the Board of Directors Deputy Director General at LLC KFK-Consult

In 2011, the Committee held two meetings which reviewed appointment and replacement criteria (qualification requirements) for Management Board members and assessed the performance of the Board of Directors.

The Investment Committee

The Investment Committee carries out preliminary reviews of investment projects and programs and upgrades and develops the Company's investment policy.

The Chairman and Committee members were elected by a resolution of the Board of Directors on July 22nd, 2011.

Members of the Investment Committee

Name	Position
TATSIY Vladimir Vitalyevich	Chairman of the Investment Committee Chairman of the Board of Directors First Vice President of JSC Gazprombank
DANILOV-DANILYAN Victor Ivanovich	Deputy Chairman of the Board of Directors Director, Water Engineering Institute of the Russian Academy of Science (RAS)
GRIGORIEV	General Director of Ingosstrakh

Alexander Valeryevich	
DUBOVSKY Igor Leonidovich	Deputy Head of the State Tariff Regulation Division of the Department for State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Russian Ministry of Economic Development
KOROLEV Ivan Sergeyevich	Deputy General Director at the Institute of Global Economics and International Relations of the Russian Academy of Science (RAS)
MANTRON Mikhail Alexeyevich	Deputy Chairman of the Management Board
NIKONOV Vasily Vladislavovich	Director of the Department of Energy Industry Development of the Russian Ministry of Energy
NOZDRACHEV Denis Alexandrovich	Chairman of the Management Board at JSC Svyaz-Bank
POLUBOYARINOV Mikhail Igorevich	Member of the Board of Directors Deputy Chairman of Vnesheconombank
RIZHINASHVILI George Ilyich	Deputy Chairman of the Management Board
TIKHONOVA Maria Gennadievna	Director of the Department for Economic Regulation and Property Relations at the Fuel and Energy Sector of the Russian Ministry of Energy

In 2011, the Committee held eleven meetings focused on financing and implementing the Investment Program. The Committee developed methods to calculate and assess key performance indicators “Cutting Purchase Cost of Goods (Work/Service) per Product Item” and methods for calculating the target prices of goods (work/service) for procurement activities under industrial and investment programs.

The Reliability, Energy Efficiency and Innovation Committee

The Committee carries out preliminary reviews of technical policy, environmental policy and energy-conservation and efficiency policy, as well as the development of technical regulation standards and a long-term planning system for hydro-power and energy sectors based on other renewable energy sources (RES).

The Chairman and Committee members were elected by a resolution of the Board of Directors on July 28, 2011.

Members of the Reliability, Energy Efficiency and Innovation Committee

Name	Position
KUDRYAVY Victor Vasilyevich	Chairman of the Committee Member of the Board of Directors Advisor to the President, JSC Eurocement Group
ALZHANOV Rakhmetulla Shamshievich	Deputy Chairman of the Management Board
VOLKOV Eduard Petrovich	General Director at JSC Krzhizhanovsky Power Engineering Institute, Member of the Russian Academy of Science (RAS)
BELLENDIR Evgeny Nilolayevich	General Director at JSC VNIIG R&D Director at JSC RusHydro
BOGUSH Boris Borisovich	Member of the Management Board
BOLGOV Mikhail Vasilievich	Acting Deputy General Director, Water Engineering Institute of the Russian Academy of Science (RAS)
ZIMIN Victor Mikhailovich	Member of the Board of Directors Prime Minister of the Government of the Republic of Khakassia
KUTYIN Nikolay Georgievich	Head of Rostechnadzor
MASLOV Alexey Victorovich	Deputy Chairman of the Management Board
RIZHINASHVILI George Ilyich	Deputy Chairman of the Management Board
TATSIY Vladimir Vitalyevich	Chairman of the Board of Directors First Vice President, JSC Gazprombank
SHISHIN Sergey Vladimirovich	Member of the Board of Directors Vice President, VTB

In 2011, the Committee held nine meetings, including 3 joint meetings with the Strategy Committee and the Investment Committee. The meetings focused on reviewing the Company’s technical policy and RusHydro’s integrated generation facility modernization for the 2012-2025 period. The Committee developed a method for calculating energy generation volumes with a view to annual water content forecasts.

The Management Board

The Management Board is a collegiate executive body of the Company acting in accordance with the applicable Russian laws, the Articles of Association, the Corporate Governance Code and the Regulations on the Management Board and is governed by resolutions of the General Meeting of Shareholders and the Board of Directors.

The Management Board is responsible for implementing goals and development strategy and manages the Company's day-to-day operations to ensure high asset yield and the maximum profitability of RusHydro's operations.

The Chairman of the Management Board is responsible for operations and is the Company's chief executive body.

In 2011, meetings of the Management Board addressed issues related to current Company operations. The Management Board also carried out preliminary discussions of all strategic issues which fall within the competence of the Company's Board of Directors.

Members of the Management Board

Name and Position	Date of Birth	Education	Curriculum Vitae	Sphere of Activity	Ownership of Company Shares
DOD Evgeny Vyacheslavovich <i>Chairman of the Management Board</i>	1973	Moscow Aviation Institute (State Technical University) MAI Ph.D. in Economics	2000-2008: General Director and Chairman of the Management Board (May 2008-2009) at JSC INTER RAO UES Current positions: Member of the Board of Directors at JSC INTER RAO UES, JSC Irkutskenergo, JSC CFR; JSC ATC; JSC SO UES; member of the Supervisory Board at JSC All-Russian Regional Development Bank, NP Hydro-power Industry of Russia; member of the Management Board at the Russian Union of Industrialists and Entrepreneurs; member of the Management Council at the International Center of Sustainable Energy Development. Date office taken: 24.11.2009. Term of office under the employment agreement: 23.11.2014	General management of the Company	Interest in the Company's charter capital: 0.13% Interest in the Company's ordinary shares: 0.13%
ALZHANOV Rakhmetulla Shamshievich <i>Deputy Chairman of the Management Board</i>	1950	Novocherkassk Polytechnic Institute	1995-2005: Deputy General Director at JSC Sevkavhydroenergostroy (the Zelenchuksky HPP) and First Deputy General Director for Operations at JSC Zelenchugsky HPPs 2005-2009: General Director at JSC Santgudinskaya HPP-1 Current positions: Member of the Supervisory Board at NP Council of Energy Industry Veterans and Supervisory Board Hydro-power Industry of Russia Date office taken: 24.11.2009 Term of office under the employment agreement: unlimited	Operations Chief Engineer	Interest in the Company's charter capital: 0.00005% Interest in the Company's ordinary shares: 0.00005%
MANTROV Mikhail Alexeyevich <i>Deputy Chairman of the Management Board</i>	1965	Moscow Power Engineering Institute Economic Academy under the President of the Russian Federation	2000-2008: Deputy General Director, JSC INTER RAO UES 2008-2009: Head of the Corporate Center at JSC INTER RAO UES, Deputy Chairman of the Management Board From 2009: Deputy Chairman of the Board of Directors, JSC RusHydro Date office taken: 24.11.2009 Term of office under the employment agreement: unlimited	Finance and economics	Interest in the Company's charter capital: 0.03% Interest in the Company's ordinary shares: 0.03%
MASLOV Alexey Victorovich <i>Deputy Chairman of the Management Board</i>	1975	Bauman Moscow State Technical University Finance Academy of the Russian Government	1999-2008: Different positions at JSC RAO UES of Russia and JSC FGC UES 2008-2010: General Director at JSC Engineering and Construction Management Center of the Unified Energy System January-April 2010: Executive Director for Capital Construction at JSC RusHydro Chairman of the Partnership Council at NP Union of Construction Companies, ErgoStroyAlliance. Date office taken: 21.04.2010 Term of office under the employment agreement: unlimited	Capital construction and IT	Holds no shares in the Company

RIZHINASHVILI George Ilyich <i>Deputy Chairman of the Management Board</i>	1981	Lomonosov Moscow State University	2003-2007: Chief Specialist of the Investment Office, Head of the Strategy and Investment Department, Director for Investments; 2008: Deputy Head of the Director for Strategy and Investments; elected to the Management Board of JSC INTER RAO UES; August 2008: Head of the Strategy and Investment Office Date office taken: 24.11.2009 Term of office under the employment agreement: unlimited	Strategy and innovations	Holds no shares in the Company
TSOY Sergey Petrovich <i>Deputy Chairman of the Management Board</i>	1957	Suslov State University at Rostov Lomonosov Moscow State University Candidate in Political Sciences	2003-2010: Head of the Press Service for the Moscow Mayor and the Moscow Government and the Moscow Mayor's Press Secretary 2006: Chairman of the Board of Directors of JSC TV Center Date office taken: 01.12.2010 Term of office under the employment agreement: unlimited	GR, PR, international relations and administration	Holds no shares in the Company
ABRASHIN Sergey Nikolayevich	1959	Higher	2006-2007: Head of the Security Service at YUKOS 2007-2009: Vice President, JSC Transneftproduct From 2010: Advisor to the Chairman of the Management Board, JSC RusHydro Date office taken: 21.04.2010 Term of office under the employment agreement: unlimited	Economic security	Holds no shares in the Company
BESSMERTNY Konstantin Valeryevich	1973	Bauman Moscow State Technical University The Academy of the National Economy under the Russian Government, MBA	2000-2009: Advisor and Financial Director, JSC INTER RAO UES 2009-2010: Director of the Moscow Branch at JSC Nizhnevartovskaya HPP Date office taken: 21.04.2010 Term of office under the employment agreement: unlimited	Accounting and tax reporting	Interest in the Company's charter capital: 0.005% Interest in the Company's ordinary shares: 0.005%
BOGUSH Boris Borisovich	1952	Tolyatti Poly-technical Institute The Academy of the National Economy under the Russian Government	2005-2007: Deputy Head of the Production Business Unit, JSC MC HydroOGK 2007-2009: Member of the Management Board, Managing Director and Head of the Production Business Unit, JSC RusHydro 2009-2010: Managing Director, Head of the Production Business Unit, JSC RusHydro Date office taken: 21.04.2010 Term of office under the employment agreement: unlimited	Supervision of chief engineers at the facilities of the Company and SDCs' facilities	Interest in the Company's charter capital: 0.003% Interest in the Company's ordinary shares: 0.003%
GORBENKO Yury Vasilevich	1958	Krasnoyarsk Engineering and Construction Institute Ph. D. in Economics	From 1998: General Director at JSC Bureyskaya HPP January 2008: Director of the Bureyskaya HPP, RusHydro's branch January 2008: Managing Director at JSC RusHydro, Head of the Far Eastern Division Date office taken: 17.09.2009 Term of office under the employment agreement: unlimited	Sayano-Shushenskaya HPP renovation	Interest in the Company's charter capital: 0.005% Interest in the Company's ordinary shares: 0.005%

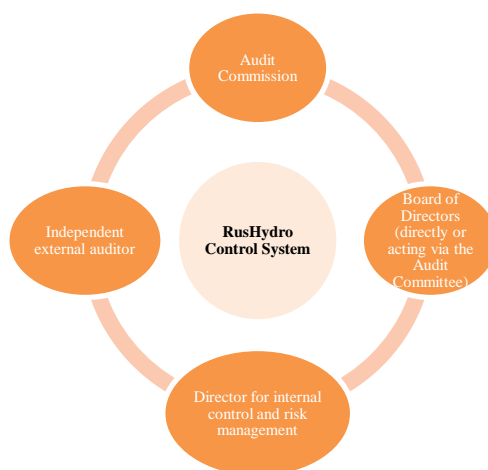
GOREV Evgeny Evgenyevich	1975	Lomonosov Moscow State University	2006-2009: Deputy Head of the Corporate Center, JSC INTER RAO UES Date office taken: 24.11.2009 Term of office under the employment agreement: unlimited	corporate governance and legal affairs	Interest in the Company's charter capital: 0.004% Interest in the Company's ordinary shares: 0.004%
SAVIN Stanislav Valeryevich	1972	Moscow State Railroad University (MIIT)	2003-2010: Head of the Central Asia Geographic Division, Deputy Head and Head of the International Business Department for the Central Asian and Far Eastern Markets; Head of the Department for Central Asia and the Far East; Deputy Head of the Russian Geographic Division; Regional Director for Kazakhstan and Central Asia at JSC INTER RAO UES Date of taking the office: 21.04.2010 Term of office under the employment agreement: unlimited	Sales	Interest in the Company's charter capital: 0.0035% Interest in the Company's ordinary shares: 0.0035%

Transactions with the Company's Shares Made by Members of the Management Bodies

Name of the Management Body Member	Transaction Date	Transaction	Number of Shares Involved	Charter Capital Stake before Transaction	Charter Capital Stake after Transaction
Dod Evgeny Vyacheslavovich Chairman of the Management Board, member of the Board of Directors	14.06.2011	Acquisition	12 723 000	0	0.0044%
	16.06.2011	Acquisition	18 000 000	0.0044%	0.01%
	05.07.2011	Acquisition	125 000 000	0.01%	0.054%
	09.08.2011	Acquisition	135 000 000	0.054%	0.1%
	26.09.2011	Acquisition	78 000 000	0.1%	0.13%
Mantrov Mikhail Alexeyevich Deputy Chairman of the Management Board	23.08.2011	Acquisition	22 780 000	0.00073%	0.03%
Savin Stanislav Valeryevich member of the Management Board	24.08.2011	Acquisition	10 045 000	0%	0.0035%
Gorbenko Yury Vasilievich member of the Management Board	25.08.2011	Acquisition	13 163 000	0.0004%	0.005%
Bessmertny Konstantin Valeryevich member of the Management Board	26.08.2011	Acquisition	15 000 000	0%	0.005%
Bogush Boris Borisovich member of the Management Board	08.09.2011	Acquisition	9 979 000	0.00001%	0.003%
Gorev Evgeny Evgenyevich member of the Management Board	22.09.2011	Acquisition	12 647 000	0%	0.004%

The Company's Internal and External Audit System

An efficient system for controlling financial and business operations guarantees the integrity of the Company's assets. The system for controlling JSC RusHydro's financial and business operations includes the following key elements:



The main principles, goals, objectives, methods and processes of the internal audit system are defined in the following approved internal corporate documents:

- ❖ The Corporate Governance Code;
- ❖ Regulations on Internal Audit and Risk Management Policy;
- ❖ Regulations on the Board of Director's Audit Committee; and
- ❖ Regulations on the Audit Commission.

The Audit Commission

The key responsibilities of the Audit Commission include: controlling financial and business operations, supervising how the Company's business and financial transactions comply with both Russian laws and JSC RusHydro's Articles of Association and carrying out an independent evaluation of the Company's financial status.

The Audit Commission acts in accordance with Russian laws, the Articles of Association and the Regulation on the Audit Commission and is elected by the General Meeting of Shareholders for a one year term. The Commission is made up of 5 members.

The following members of the Audit Commission were elected by a resolution of the Annual General Meeting of Shareholders on June 30th, 2011:

Name	Date of Birth	Position
TIKHONOVA Maria Gennadievna	1980	Chairman of the Audit Commission Director of the Department for Economic Regulation and Property Relations at the Fuel and Energy Sector of the Russian Ministry of Energy
GOREVOY Dmitry Mikhailovich	1982	Head of the Department for Energy Industry Development of the Division for State Tariff Regulation, Infrastructure Reform and Energy Efficiency at the Russian Ministry of Economic Development
KOLYADA Andrey Sergeevich	1984	Head of the Department for Fuel, Energy and Coal Industry in the Infrastructure Sector Office and the Defense Industry at the Federal Agency for State Property Management
LITVINA Yelena Yurievna	1987	Chief Expert at the Management Department of the Federal Agency for State Property Management
YUGOV Alexander Sergeevich	1981	Head of the Department of Oil and Gas Industry and Raw Materials Division of the Infrastructure Sector Management of the Federal Property Management Agency

In 2011, the Audit Commission carried out one audit of financial and business operations of JSC RusHydro in 2010. The audit revealed no failures to comply with Russian law and confirmed the validity of information contained in the 2010 financial statement and accounting report.

The Internal Audit and Risk Management Unit

The Internal Audit and Risk Management Unit is responsible for the Company's internal audit. The Unit includes the following departments:

- ❖ The Internal Audit Department;
- ❖ The Internal Control Department; and
- ❖ The Risk Management Division.

The Director for Internal Audit and Risk Management is the Head of the Internal Audit and Risk Management Unit. The Director for Internal Audit and Risk Management reports directly to the Chairman of the Management Board and is accountable to the Audit Committee.

Timelines for the Internal Audit and Risk Management Unit are approved on an annual basis by the Audit Committee. The Director for Internal Audit and Risk Management submits quarterly reports on implementing a timeline to the Audit Committee. In 2011, the Internal Audit Department fulfilled all control efforts considered under 2011 timelines. Reports prepared on the results of these control efforts were submitted to the Chairman of the Management Board, members of the Management Board and directors of audited subsidiaries, affiliated entities and branches. Each report included a description of deficiencies identified by control efforts and proposals on remedying them and enhancing the performance of the Company's internal audit system.

External Independent Auditor

JSC RusHydro carries out an annual audit of its financial (accounting) reporting. Based on recommendation of the Company's Board of Directors, the Annual General Meeting of Shareholders shall approve an independent auditor to carry out audits of RAS financial accounting.

The Company applies a special procedure to select candidates for the independent financial audit; the procedure is conducted via open tender. The Tender Commission for this open tender is established by the Audit Committee. The Committee also approves the tender documents to award the service agreement to audit the Company's financial (accounting) reporting.

In April 2011, the Tender Commission carried out procedures to select JSC RusHydro's auditor and selected a winner, HLB Vneshaudit (a closed joint stock company), which was recommended for approval at the Annual General Meeting of Shareholders.

On June 30, 2011, JSC HLB Vneshaudit was approved as the independent external auditor by a resolution of the shareholders.

Efforts to mitigate corruption risk and minimize damage from corrupt actions

The Company seeks to prevent and reveal corrupt practices. If any violations are identified, the Company carries out internal investigations, develops and implements measures to eliminate and prevent problems and applies disciplinary measures toward employees who are guilty under the applicable law.

In 2011, the Company opened a confidential hotline via which individuals can contact the Internal Audit and Risk Management Unit, if any corrupt practices are identified.

The Company has carried out a complete inspection of affiliations between JSC RusHydro's executives and their counterparties; developed an Integrated Program on Fraud Prevention and Corruption, which involves efforts to mitigate the risks of corrupt practices and prepared several internal documents to prevent corruption:

- ❖ Regulations on Disclosing Information on Income, Property and Property Obligations by RusHydro's Employees;
- ❖ Regulations on Notifying the Employer (JSC RusHydro) of any Facts Related to Soliciting RusHydro's Employees to Commit Illegal Activities;
- ❖ Regulations on Disclosing Information on Gifts Received by RusHydro's Employees in Relation to Protocol Events, Business Trips and other Official Events;
- ❖ Regulation on Preventing and Settling Conflicts of Interest in JSC RusHydro; and
- ❖ Rules to Review Calls Received on JSC RusHydro's Confidential Hotline.

The Board of Directors approved amendments to the Company's internal documents regulating procurement. The amendments enabled the Company to reduce the probability of violations by eliminating gaps in regulation and procurement control.

The management team pursues a policy of supporting high conduct standards to be followed by the Company's employees.

Efforts to prevent the use of insider information

In 2011, the Company approved the Regulation on Insider Information aimed at complying with Russian laws concerning preventing the use of insider information and market abuse. The regulation defines categories of persons which the Company qualifies as insiders and restrictions on the use of insider information to carry out transactions with the Company's financial instruments, as well as the disclosure of said information to third parties.

Inspector of JSC RusHydro's is responsible for supervising compliance with insider information laws. The Inspector reports to the Audit Committee on a quarterly basis. The Audit Committee includes information on fulfilling such requirements by the Company in its reports, subject to approval by the Board of Directors.

Remuneration to Management and Control Bodies

The Board of Directors

Remuneration is defined in accordance with the Regulations on Remuneration to JSC RusHydro's Board of Directors based on fixed remuneration equal to 900,000 rubles and the total number of Board meetings during the previous year and the number of such meetings attended by a member of the Board of Directors.

Remuneration premiums are payable as follows:

- ❖ 30% to the Chairman of the Board of Directors;
- ❖ 20% to the Chairman of Board of Directors' Committee; and
- ❖ 10% for membership on a Committee of the Board of Directors.

Considering the above-mentioned premiums, the total remuneration payable to a member of the Board of Directors shall not exceed 1 million rubles.

No compensation (transportation expenses, accommodations, etc.) related to the activities of members of the Board of Directors shall be provided.

The Regulations on Payment of Remuneration and Compensation to Members of the Board of Directors shall not apply to members of the Board of Directors who simultaneously act as Chairman of the Management Board or as members of the

Management Board (during either a full or partial term in office) nor to members of the Board of Directors who are restricted from receiving any payments from commercial organizations by Russian federal law.

Total remuneration and compensation paid to Board of Directors members in 2011 (including for members of the Board who served prior to June 30th, 2011) was 5,876,307.69 rubles.

Management Board

Remuneration to the Chairman of the Management Board and members of the Management Board is defined by the Regulations on Remuneration and Compensation to Members of JSC RusHydro's Management Board. To more closely match remuneration to members' performance, the ratio of the fixed and variable salary for the Chairman of the Management Board and Management Board members is 30/70, respectively. The Regulations contemplate quarterly and annual bonus payments for meeting key performance indicators, as stipulated by the Board of Directors for the Chairman of the Management Board and Management Board members (50% bonus) and personal performance indicators set for each Management Board member (50% bonus). Performance indicators include both financial and production indicators.

The total remuneration and compensation payable to the Chairman of the Management Board and Management Board members was 1,012,439,661.18 rubles.

No remuneration was paid to top managers of JSC RusHydro for 3Q and 4Q of 2009 and 2009 during 2010 by the decision of the Board of Directors made in the context of the Sayano-Shushenskaya HPP accident on August 17, 2009. In 2011, the Company paid full remuneration for 2010 with a view to meeting the key performance indicators of the Company.

The Audit Commission

Members of the Audit Commission are paid lump-sum remuneration in accordance with the Regulations on Remuneration and Compensation to Members of JSC RusHydro's Audit Commission.

The remuneration is equal to twenty-five minimal grade one monthly rates established by the tariff agreement applicable to the Russian energy industry for the period of the audit, including indexation set forth in the Agreement. Remuneration payable to the Chairman of the Audit Commission is increased 50%.

No remuneration and compensation are paid to Audit Commission members restricted from receiving any payments from commercial organizations by Russian federal law.

No remuneration was paid to Audit Commission members in 2011, as all members were government officers.

External Auditor

In 2011, remuneration paid to JSC HLB Vneshaudit for auditing the Company's financial statement and accounting reports under Russian Accounting Standards was approved by the Board of Directors at 14,950,000 rubles including VAT.

SDCs Management

JSC RusHydro participates in the charter capital of companies involved in design, construction, maintenance and repairs, technical upgrading and renovation of power facilities, as well as in energy generation and supply.

The Company's relationships with its SDCs are focused on implementing strategy, ensuring sustainable economic growth and investment appeal and protecting the rights and interests of shareholders of the Company and its affiliated entities.

The Company manages its SDCs via its representatives at General Meetings of Shareholders, Board of Directors meetings and audit bodies of these entities in accordance with the Articles of Association and the Rules of relationships with companies in which JSC RusHydro participates.

Responsibility for making any management decisions related to SDCs falls under the competence of the Management Board, except for decisions on strategic matters, such as re-organization, liquidation, changes in charter capital, approval of large-scale transactions and participation in other organizations.

JSC RusHydro is committed to upgrading the corporate management level for its SDCs, in particular, it seeks to enhance transparency and ensure their compliance with Russian federal laws on mandatory information disclosure.

2011 Changes in the Holding Structure

In 2011, RusHydro Holding made some changes in its structure by acquiring or terminating its participation in SDCs.

The key 2011 transaction involved consolidating Far Eastern energy assets. JSC RusHydro acquired a controlling stake in RAO ES of the East and became a major player on the Far Eastern energy market. This acquisition is in line with the Company's growth strategy to consolidate underestimated Russian generating assets and create added value via a synergy of the Holding's existing generating, supply, construction and project assets.

The above-mentioned assets are included in RusHydro's charter capital in accordance with Russian Government Order No. 2461-p (of December 29, 2010). The Russian Federation participated in the additional issue of the Company's shares by exercising its pre-emptive right for additional shares in the Company.

	Number of ordinary and preferred shares transferred	RusHydro's stake in the charter capital of the Company before exercising its pre-emptive right, %	RusHydro's stake in the charter capital of the Company after exercising its pre-emptive right, %
RAO ES of the East	29,886,902,719	0	69.3160*
Far East Energy Company	178,714,322	0	1.0376
Sakhalin Energy Company	1,029,000	0	17.7723
Yakutskenergo	2,769,811,893	0	29.7951
TRUST Hydromontazh	127,054,147	0	33.5429
Geo-therm	6,300,000	79.423	92.7972
Kolymaenergo	4,212,199,965	64.2746	98.7597
Ust-Srednekanskaya HPP	5,642,166,600	3.64	35.3134
KamGEK	1,187,917,534	0	96.5835
Pavlodolskaya HPP	380,900	0	100
Boguchanskaya HPP	181,520,990	0	2.8860
Zamagarskaya HPP	77,000	95.4579	98.3467
Irkutskenergo	672,258	0	0.0141

*shown as the percentage from the charter capital as of 31.12.2011

After completion of the additional share issue (07.02.2012) the share of JSC RusHydro is 65.75%.

THE COMPANY ON THE STOCK MARKET

Authorized Capital

On December 31st, 2011, the Company's charter capital stood at 290,302,702,379 rubles divided into 290,302,702,379 ordinary registered non-documentary shares with a par value of 1 ruble per share. According to the Company's Articles of Association, the number of authorized ordinary shares is 100,000,000,000. The Company has issued no preferred shares.

During the last five years, the Company's charter capital has increased each year through the issuing of additional ordinary shares. As a result, since the Company's founding, its charter capital has tripled. Funds raised via the placement of shares were used to finance the Company's large-scale investment program. In 2008, charter capital increased by converting shares of companies that had merged with the Company.

All issues of the Company's registered shares are united as a single issue under State registration number 1-01-55038-E.

Information on additional shares issued in 2011

	1-01-55038-E-039D*	1-01-55038-E-040D
Decision date for increasing charter capital	22.10.2010	30.06.2011
State registration date for the issue	02.12.2010	16.08.2011
The total issue value (in nominal terms), rubles	1,860,000,000	89,000,000,000
Share category (type)	Ordinary registered	Ordinary registered
Placement method	Open subscription	Open subscription
Payment method	Monetary funds	Monetary and non-monetary funds
Single share placement price	1 ruble 61 kopecks	❖ 1 ruble 65 kopecks ❖ The evaluation was approved by the Board of Directors based on an independent appraiser's report
Placement start date	23.12.2010	05.09.2011
Placement end date	29.03.2011	**
Number of shares placed in nominal value, rubles	1,607,271,577	**
Funds attracted, rubles	2,587,707,238.97	**

* Code 039D was cancelled on 02.08.2011

** The placement is not complete as of 31.12.2011

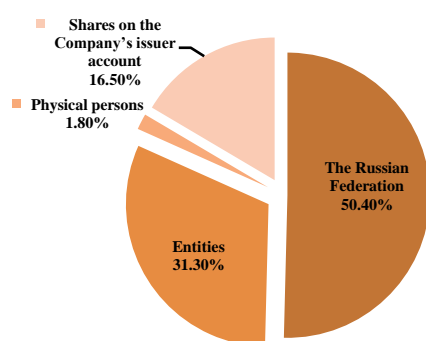
Changes in the Company's Articles of Association, resulting from an increase in charter capital due to the placement of the additional share issue under State registration number 1-01-55038-E-039D, were registered in May 2011. A decision to carry out the share issue was made at the Extraordinary General Shareholders Meeting in October 2010. The Company provided its shareholders with the pre-emptive right to purchase the additionally issued shares first. The pre-emptive right amounted to the placement of 1 billion additional shares, constituting 55.8 % of the total issue. The largest buyer was the State, which purchased an additional 1.5 billion rubles in shares. This financed the restoration of the Baksanskaya HPP following a terrorist attack. The total issue was for 1.6 billion additional shares, attracting 2.6 billion rubles in funds.

At the General Shareholders Meeting held in June 2011, a decision was made to increase the Company's charter capital by 89 billion rubles. The increase was designed to consolidate hydro-energy assets and finance construction of the Gotsatinskaya HPP in Dagestan. The additional share issue was registered by the State under the number 1-01-55038-E-040D. The Company provided its shareholders with the pre-emptive right to purchase additionally issued shares first. As a result of the issue, the Company purchased shares in Far Eastern companies and the Angara dam. In total, the issue attracted **3.168** billion rubles, of this amount, **3.133** billion rubles were paid by the Company's majority shareholder, the Russian Federation to be spent on completing the Gotsatinskaya HPP. The State contributed property with a total value of **43.613** billion rubles. As of December 31st, 2011, the additional share placement was not complete.

List of registered entities for which personal accounts account for more than 2% of shares, as of 31.12.2011

Registered entity	Type of registered entity	Number of shares	% of issued shares	% of placed shares
The Russian Federation, as represented by the Federal Agency for State Property Management	Owner	191,247,357,990	50.42	60.38
“ING BANK (EURASIA)” (CLOSED JOINT STOCK COMPANY)	Nominee shareholder	41,244,765,840	10.87	13.02
“Natsionalny Raschetny Depositariy” (National Settlement Depository) Closed Joint Stock Company, a non-banking credit organization	Nominee shareholder	28,652,443,433	7.55	9.05
“Depositarno-Kliringovaya Kompaniya” (Depository and Clearing Company) Closed Joint Stock Company	Nominee shareholder	24,067,084,453	6.35	7.60
“Depositarnye i Korporativnye Technologii” (Depository and Corporate Technologies) Limited Liability Company	Nominee shareholder	15,563,297,487	4.10	4.91

Charter Capital Allocation, as of 31.12.2011



Source: JSC Registrar R.O.S.T.

Information provided takes into account the incomplete share issue as of 31.12.2011

Circulation of the Company Securities on the Russian Market

The Company's securities circulate on the main trading floor of the Russian stock exchange, namely CJSC FB MMVB (MICEX Stock Exchange); the Company is a member of JSC MMVB-RTS Group (MICEX-RTS). The Company's shares are traded in three sectors –Main, Standard and Classica. Since the Company was listed in 2008, the Company's shares have become “blue chip” securities on the Russian market, and are among the most liquid traded securities. The shares have been included in MICEX and RTS indices, the MICEX Large Cap and MICEX Mid Cap capitalization indices, MICEX PWR and RTSeu sector indices, as well as into the following foreign indices: MSCI Russian, MSCI Emerging Market and MSCI Global Value and Growth (which are calculated by Morgan Stanley Capital International Inc.).

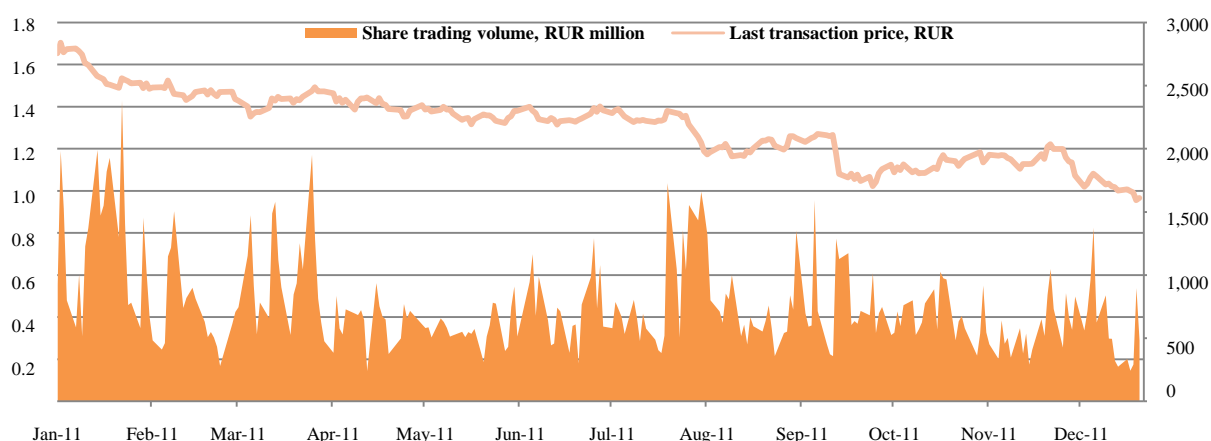
Trading in the Company's Shares on the Stock Market

	Main Market		Standard		Classica	
	2010	2011	2010	2011	2010	2011
Ticker symbol	HYDR		HYDRS		HYDR	
Transaction currency	RUR		RUR		USD	
Maximum transaction price	1.820	1.705	1.827	1.703	0.062	0.0562
Minimum transaction price	1.182	0.9559	1.184	0.958	0.039	0.03
Year end transaction price	1.649	0.9658	1.648	0.968	0.054	0.03
Share trading volume	251 bln.	190 bln.	18 bln.	4 bln.	41 bln.	2.8 mln.

* 2010 data correspond to the following trading modes in effect before the integration of the two stock exchanges, CJSC FB MMVB and JSC RTS:

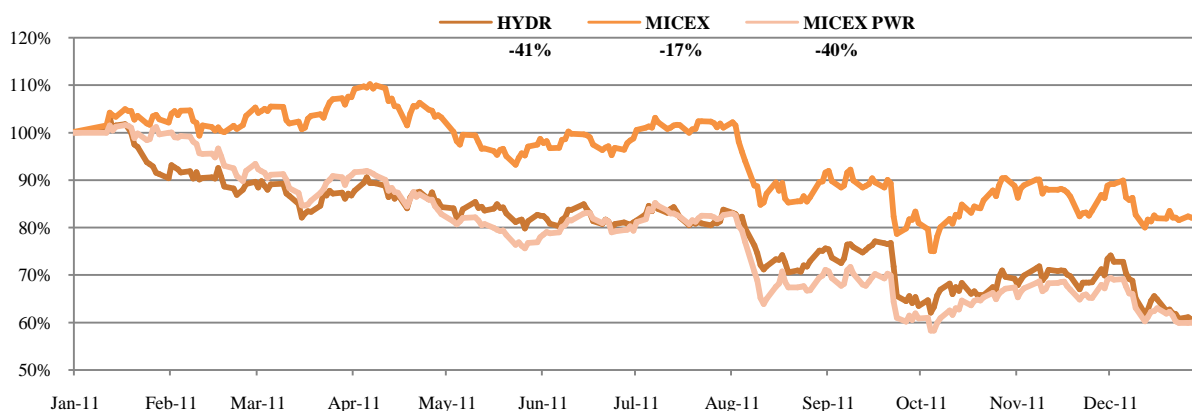
- ❖ The Main Market – MMVB (MICEX) stock market;
- ❖ Standard - RTS Standard stock market;
- ❖ Classica – RTS classic market.

The Company's 2011 Share Performance and Trading Volume on the MICEX Main Market



Source: MICEX-RTS data (<http://rts.micex.ru/>)

The Company's 2011 Share Performance (HYDR) compared with MICEX and MICEXPWR indices



Source: MICEX-RTS data (<http://rts.micex.ru/>)

Throughout 2011, the value of the MICEX index, Russia's principal stock market indicator, was influenced by external factors, including: debt problems in Euro-region countries and the decision of Standard & Poor's to downgrade the United States' sovereign credit rating. The latter factor resulted in the failure of the Russian market to win its position back in H2 2011. Despite high sustained oil prices throughout the reporting year, foreign investors preferred to take their capital out of Russia. These trends affected all developing markets, including Russia. Compared to 2010, the MICEX index lost 17%.

Shares of power sector companies underperformed the market during 2011. Compared to 2010, the MICEXPWR index declined 40%. Capitalization of power sector companies fell due to factors including the decision of the Russian government to limit energy price growth. The decision was made in response to the fact that investors started to form expectations taking into consideration a future decline in revenues for power sector companies, resulting in a reduction in programs to upgrade depreciated assets and an increase in their debt burden. A further decline in the capitalization of power sector companies in December 2011 can be attributed to critical comments by Russian Prime Minister V.V. Putin. These comments were directed at the heads of some domestic power sector companies.

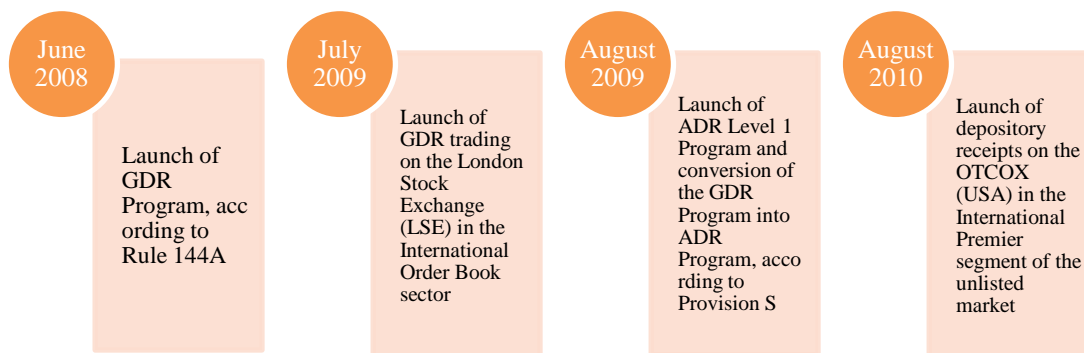
On the whole, during 2011, the dynamics of the Company's stock value corresponded closely with other power sector companies. This can be explained by limitations in tariff growth and the exclusion of the target investment component from the Company's tariff formation mechanism.

Despite the negative factors listed above, the Company's securities provide one of the most promising long-term investment opportunities in the power sector.

Circulation of the Company's Securities on International Markets

The Company launched a depository receipts program for ordinary shares. On December 31st, 2011, the Company issued 327,435,504 Level 1 American Depositary Receipts (ADRs) and 3,578,226 Global Depositary Receipts (GDR) according to Rule 144A for 33,101,373,000 ordinary shares which make 10.45 % of the total amount of the Company's ordinary shares.

Depository Receipt Program Stages



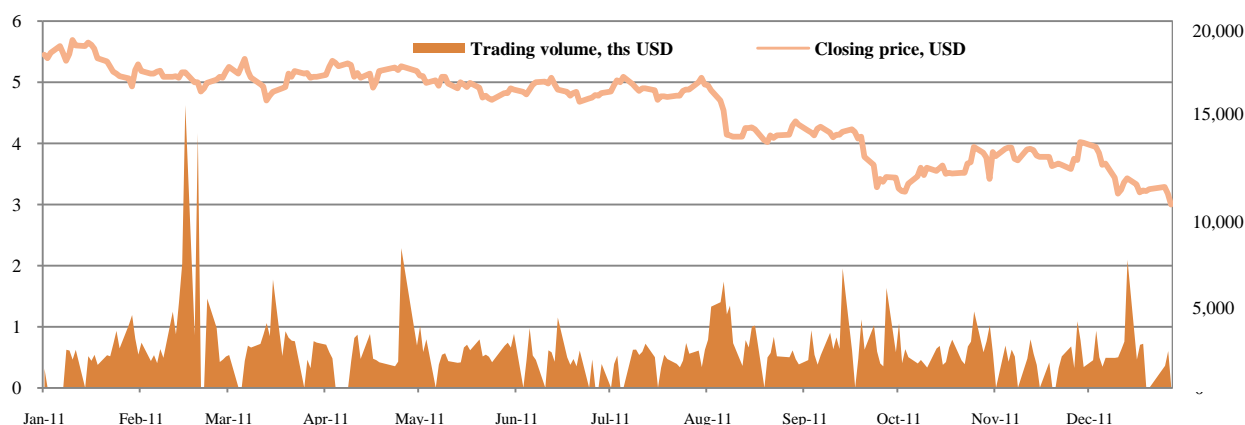
Description of the Depository Receipt Program

Program type	Program launch date	Depository bank	Ratio	Ticker symbol	CUSIP number	Maximum volume of the program, in shares	Trading floor(s)
GDR according to Rule 144A	June 17 th , 2008	The Bank of New York Mellon	1 GDR = 100 ordinary shares	HYDR	466294204	832,131,000	London Stock Exchange (Main Market – IOB)
ADR Level 1	August 7 th , 2009		1 ADR = 100 ordinary shares				466294105

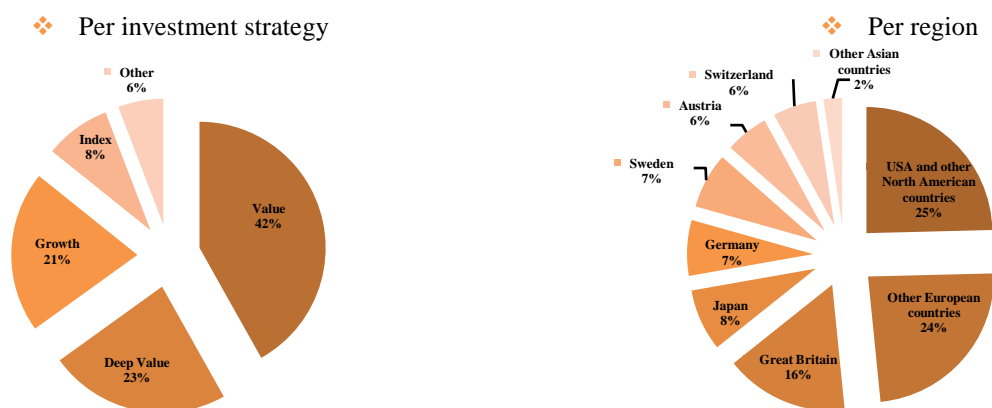
Results of Depository Receipt Trading on the LSE

	2010	2011
Ticker symbol	HYDR	
Transaction currency	USD	
Maximum transaction price	6.26	5.69
Minimum transaction price	3.94	3.00
Year end transaction price	5.45	3.05
Trading volume	2 billion	513 million

The Company's 2011 ADR Performance and Trading Volume on LSE (IOB)



Distribution of ADR Holders



Analyzing the structure of holders of the Company's depositary receipts indicates that the majority of investors support the "Value" investment strategy. The strategy in question is geared toward investing in securities of companies that have stable finances and good growth in profits, but that are underestimated by the market.

The majority of the Company's depositary receipts are held by investors from the United States and Great Britain.

Dividend Policy

The Company's dividend policy is intended to ensure the strategic development of JSC RusHydro and growth in shareholder value, by creating an optimal balance between dividend payments to shareholders and earning capitalization.

To ensure transparency in determining the amount of dividends and dividend payments, the Company adopted its own Dividend Policy. Based on this Policy, annual dividends paid by the Company must be at least 5% of net profit. The Company may also decide to pay dividends on interim results.

Dividend History

Reporting period subject to dividend payment	Total amount of declared (accrued) dividends, RUR thousand	Declared dividends per share, RUR
9 months of 2005	27,889	0.000268289
2005	565,695	0.005441922
Q1 2006	223,600	0.002151
H1 2006	110,588	0.00106384
9 months of 2006	809,000	0.005739439
Q1 2007	1,119,000	0.00793872
2010	2,496,867	0.00860091

Report on declared (accrued) dividend payment on Company's shares in 2010

The total amount of paid dividend was RUR 2,491,906 thousand or 99.8% of the declared dividends. Payments have been made in full to the persons registered in the register of shareholders, except for RUR 4,960 thousand (0.2% of the declared dividend amount) due to reasons beyond Company's control: the shareholders failed to duly notify the register holder on the change in their details or specified incorrect details for dividend payment.

The Company has fully performed its obligations to transfer dividends of RUR 1,447,343 thousand to the federal budget. The Company has no outstanding debt on dividend payment to the federal budget.

Bonds

After the successful placement of ruble-denominated eurobonds in 2010, the Company continued using public financing sources in 2011. In April, the Company completed the placement of two issues of Series 01 and 02 bonds in the amount of 15 billion rubles. The bonds were a big success with investors and are included in MICEX's "A", 1st level quotation list. Funds attracted as a result of the placement were used by the Company to finance investment activities and to partially re-finance JSC MC HydroOGK's bond in June 2011.

Key Bond Issue Parameters

	Series 01	Series 02
State registration number	4-01-55038-E	4-02-55038-E
Registration date	23.09.2010	23.09.2010
Bond type	Documentary interest-bearing, non-convertible, with mandatory centralized deposit	Documentary interest-bearing, non-convertible, with mandatory centralized deposit
Nominal value	1,000 rubles	1,000 rubles
Nominal volume of the issue	10 billion rubles	10 billion rubles
Nominal volume in circulation	10 billion rubles	5 billion rubles
Placement price	100%	100%
Placement method	Open subscription, book building	Open subscription, book building
Placement date	25.04.2011	Start date: 25.04.2011 End date: 05.05.2011
Coupon	1-10 coupons – 8%, 11-20 – as determined by the issuer	1-10 coupons – 8%, 11-20 – as determined by the issuer
Coupon payment period	Twice a year	Twice a year
Yield on the initial offer	8.16%	8.16%
Put-option	22.04.2016, type – put, price – 100%	22.04.2016, type – put, price – 100%
Maturity date	12.04.2021	12.04.2021

In August 2011, the Company decided to attract debt funds in an amount up to 40 billion rubles to finance operating and investment activities. The funds will be attracted by issuing bonds. Registration of Series 03, 04, 05 and 05 bonds by the State was performed in October. A decision on issue placement will be made by the Company based on market conditions and the Company's demand for debt financing in 2012.

Basic Euro bond parameters

	Issue parameters
Issuing company	Rushydro Finance Ltd. (Ireland)
Ultimate borrower	JSC RusHydro
Type of securities	Eurobonds (LPN Notes, Eurobond convention)
Volume	20 billion rubles
Period	5 years
Coupon rate	7.875% per annum
Issue rating	S&P: BB+ / Moody's: Ba1 / Fitch: BB+
Listing	London Stock Exchange (LSE)
Regulating law	English law

Investor Relations

The Company is traditionally focused on relationships with the investment community, adhering to principles of openness and information disclosure. Responsibility for active relationships with investors is borne by the Company's IR Division.

In a timely manner, the Company discloses all information (in both Russian and English) that may influencing investors' decision-making. One of the Company's main communication channels is the corporate web site www.rushydro.ru. The web site contains complete and up-to-date corporate information.

During the year, Company representatives participated in more than 20 road shows and investment conferences.

According to a 2010 survey of investment funds carried out by THOMSOM-REUTERS EXTEL SURVEYS in 2011, JSC RusHydro's IR team became the best in its class for Russian power sector companies.

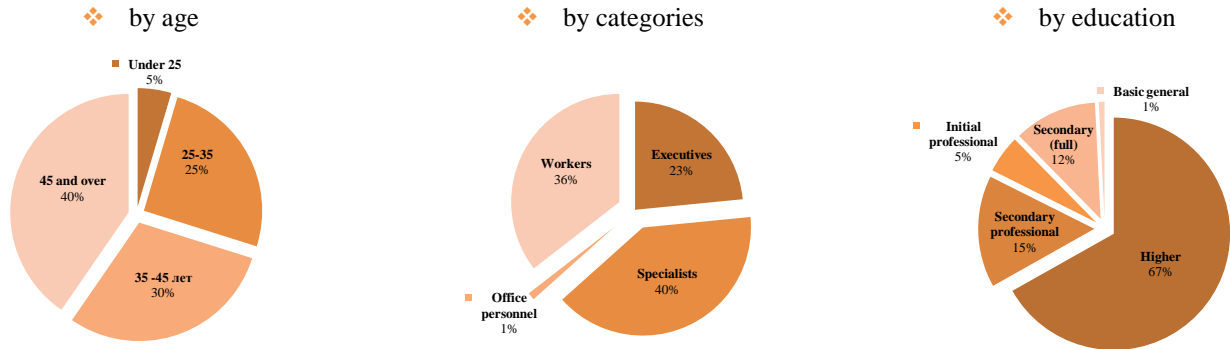
SOCIAL RESPONSIBILITY

Personnel

The cornerstone of the Company's HR policy is the understanding that its key asset is its employees. RusHydro cares about making sure that its personnel perceive their professional achievements as a contribution to the Company's growth and overall success.

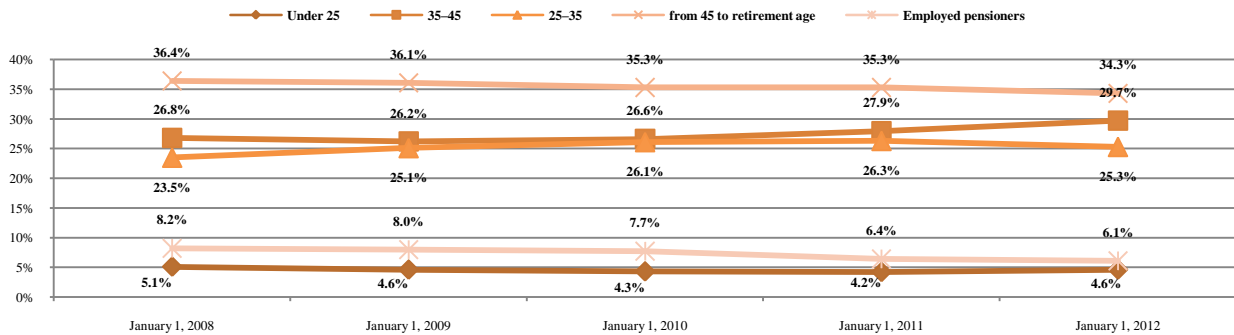
As of 31 December 2011, the Company had headcount of 6,014 people. In 2011, the number of its employees grew by 5%, driven by the Company's asset acquisitions and efforts to form management structures for them.

Personnel Structure

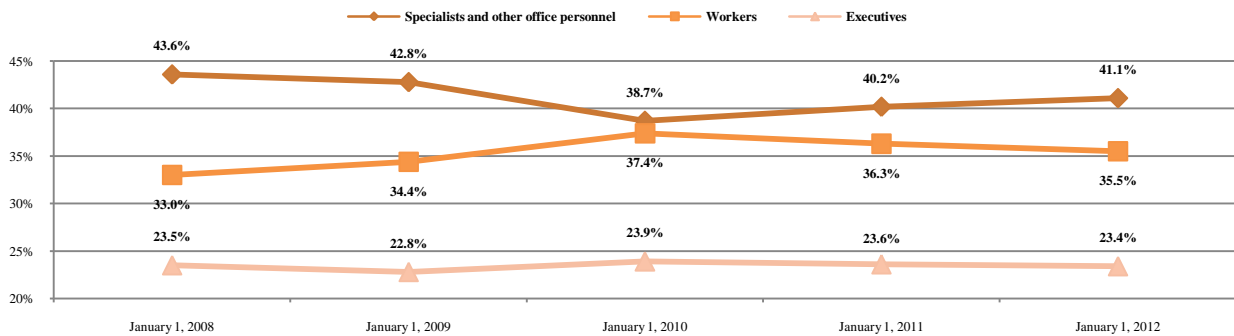


Personnel Structure

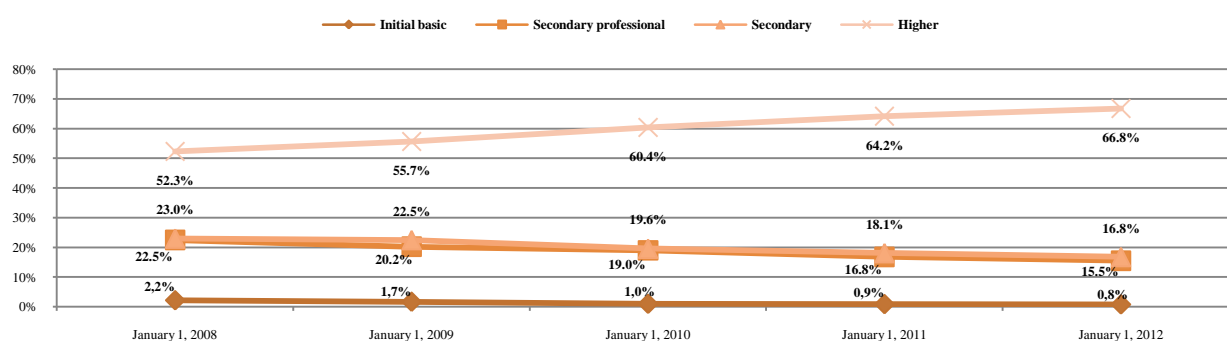
by age



by categories



❖ by education



Over the past four years, the Company has enjoyed a rather stable personnel structure, with a trend to employ younger and more highly qualified professionals.

Developing Human Resource Potential

One of the Company's strategic priorities is growing and developing its human resource potential to successfully meet its current and future targets, aims and objectives.

The Company has the Fast-Track Human Resource Development Concept – From New School to Workplace – and its Implementation Program. The Program's key task is to promote engineering education, enhance the prestige of technical occupations, and build an environment helping to cover RusHydro's need for well-trained professionals for them to later operate the Company's existing and planned capacity, ensuring their reliable uninterrupted performance.

As part of the Program, the Company has target projects underway to develop key competencies for future hydro-power professionals starting from elementary school, activities aimed at offering guidance for middle and high school students, energy power training for students based on RusHydro's requirements, and efforts to create a corporate environment promoting effective performance for the Company's young employees.

In 2011, the Company organized educational seminars for school students, helping them to make better use of teaching materials for lessons dedicated to hydropower. RusHydro also created Secrets of Water – animated textbooks about hydro power, organized the first industry-focused Olympiad among school students, called The Energy of Education, created "energy classes" in the Company's regions of presence, and unveiling a unique educational project to introduce school students to the environment of engineering and technical creativity – the Sayanskaya Summer School.

The Company continued its cooperation with the Sayano-Shushenskaya branch of the Siberian Federal University. RusHydro offers students exciting subjects to explore in their graduation papers, along with student internship and further employment opportunities. The Company's representatives are annually involved in the branch's state exam and attestation committees.

The Company cares about creating and growing dynasties of hydropower engineers and enhancing the prestige of engineering as an occupation. To do that, the Company approved the payment and compensation procedure for children of employees of RusHydro's branches provided that they are pursuing degrees matching the Company's business.

The Company has an ongoing employee training system, helping to grow the competencies of its personnel in line with their job requirements and to rotate and transfer employees as part of developing a succession pool of candidates. Wide opportunities for professional growth of the personnel are offered by a new IT-based chain of Training and Industrial Centers, including those featuring equipment simulators. Another option is close cooperation with profile institutions in the system of higher and vocational education.

RusHydro signed a strategic partnership agreement with the Moscow Power Engineering Institute. To develop training programs for occupations required by the Company, agreements with facilities of vocational training have been signed.

In 2011, the Company allocated a total of 123 million rubles to developing its human resource potential.

Social Policy

Caring about the well-being and social protection of its employees and their families is one of RusHydro's priorities. At each of its branches, the Company has a collective agreement in place. RusHydro offers its staff a strong social package, making

sure RusHydro remains an attractive competitive employer.

A special focus in the Company's social policy is recruiting young professionals with strong academic results in power engineering. Qualified personnel retention and employee incentivizing is also important for RusHydro.

The Company supports young families, mothers and children, raising the one-off entitlement to new (foster) parents by 50% in 2011. In the same year, the Company also revised and optimized the schemes it used in a number of its social programs, including recreational treatment and tourist leisure allowances for its employees and families.

Non-state pension coverage

The Company strives to develop non-state pension coverage (NPC) for its employees. Providing employees with competitive retirement benefits will help the Company better forecast and manage workforce needs based on a specified skill set, while also allowing the Company to recruit new employees in a timely manner for soon to be vacant posts and to revitalize the team.

As a socially responsible team, RusHydro improves its NPC Program on an annual basis, making sure it includes a number of retirement plans aimed at creating additional retirement savings for eligible groups. In 2011, additional ratios were introduced to encourage timely retirements among employees, helping to reduce the number of employed pensioners, simplify rotation and revitalization of the team.

Voluntary health insurance and voluntary accident and illness insurance

The Company annually revises and signs agreements for voluntary health insurance and voluntary accident and illness insurance to expand and upgrade the list of medical services available to employees. The program covers 100% of the Company's workforce. Under voluntary health insurance coverage, employees take advantage of out-patient medical treatment (including home visits by doctors), urgent and non-urgent medical care and rehabilitation therapy services, healthcare services abroad, etc. The Company also aims to provide best value offers of voluntary health insurance for its personnel's families.

Housing program

Since 2007, the Company has been implementing the Employee Housing Improvement Program, which is open for young employees below the age of 30 who do not own a separate residential property, professionals who were offered branch positions and relocated from a different place, and key and highly skilled professionals. The Company's corporate support is provided through purpose interest-free loans, compensation for interests paid on home mortgages, and compensation for housing rental expenses.

Additionally, all Company employees can access corporate support to upgrade their housing, taking advantage of assistance in their contacts with banks, real estate agencies and insurance companies to get better than average market deals (with lower mortgage interest rates, better loan consideration timing, competitive insurance rates, etc.).

In 2011, the Company has allocated a total of 1,218 million rubles to its social policy improvement.

Charity

RusHydro is fully involved in the economic and social aspects of life in the regions in which it is present. For this purpose, the Company adopted a charitable program aimed at educating a new generation of professional power engineers and establishing a favorable social environment in all regions in which the Company has HPPs.

In line with the approved Concept of Charity and Sponsorship, the Company allocates funds to the following purposes:

- ❖ assist poor and needy persons, the disabled and pensioners, primarily through charitable funds and organizations
- ❖ help retired power engineers and workers and honored industry workers
- ❖ aid children's organizations and institutions
- ❖ assist medical institutions and healthcare organizations
- ❖ promote the restoration of Russia's historical and architectural monuments and the development of culture, education, science and sport

The "Sail of Hope", a charity program implemented by the Company, won the Corporate Charity Leaders 2011, an all-Russian competition, as the Best Program Helping Local Community Growth and Social Climate Improvement in the Company's Region of Presence.

In 2011, RusHydro allocated 915 million rubles to its charitable and sponsorship activities, including 182 million rubles to the "Sail of Hope" program.

Safety and Environmental Protection

RusHydro is one of Russia's largest electricity producer that provides consumers with highly effective environmentally friendly energy from renewable sources.

To meet its environmental protection targets, the Company has the 2011-2013 Environmental Policy Program, which involves efforts to minimize negative environmental footprint and contains five key blocks:

Block 1	Block 2	Block 3	Block 4	Block 5
<ul style="list-style-type: none">• Establish the Company's branch as a socially responsible and environmentally friendly business	<ul style="list-style-type: none">• Introduce management systems compliant with ISO and OHSAS	<ul style="list-style-type: none">• Minimize environmental impact and meet corporate targets	<ul style="list-style-type: none">• Prevent and eliminate emergencies (their environmental implications)	<ul style="list-style-type: none">• Analyze results of environmental protection efforts

The Company complies with statutory environmental regulations in place and helps Russia to meet obligations stipulated by international environmental protection conventions signed by the country, aiming to constantly reduce environmental impact and prevent pollution.

The Company has environmental monitoring across its facilities, usually carried out by federal state-run agencies (Center for Laboratory Analysis and Technical Measurements, Agency of the Federal Service for Hydrometeorology and Environmental Monitoring), as well as dedicated centers and laboratories of HPPs. Additionally, the Company's construction sites use procedures to track the social and environmental condition of the facility's influence. The main blocks of the monitoring scope are hydrochemical, ichthyologic, soil and vegetation, plant, forest, zoological and social tracking.

Social Responsibility and the Corporate Sustainability Report

To provide more details about RusHydro's sustainable development, the Company has been publishing its Social Responsibility and Corporate Sustainability Reports, covering the most notable achievements of the Company in its economic, environmental and social efforts.

CONTACTS

Full name:	Open Joint Stock Company Federal Hydro-generating Company RusHydro
Abbreviated name:	ОАО “РусГидро”
Name in English:	JSC RusHydro

Location:	51 Respubliki Street, Krasnoyarsk, the Krasnoyarsk Region, Russia, 660075
Mailing address:	51 Arkhitekтора Vlasova Street, Moscow, Russia, 117393
Telephone:	+7 (495) 225-3232
Fax:	+7 (495) 225-3737
E-mail:	office@rushydro.ru
Internet address in Russian:	www.rushydro.ru
Internet address in English:	www.eng.rushydro.ru

Bank Details	
Current account:	40702810800205771190
Bank:	JSC JSCB EUROFINANCE MOSNARBANK, Moscow
BIC:	044525204
Correspondence account:	30101810900000000204

Shareholder relations	
Hotline Telephone	8 (800)555-9997 (free for residents of all Russian regions)
Electronic mail:	rushydro@rrost.ru
Corporate Governance Department:	Maxim Valentinovich Zavalko
Telephone/Fax:	+7 (495) 225-3232/225-3737
E-mail:	ZavalkoMV@gidroogk.ru

Registrar	
Full name:	Open Joint Stock Company Registrar R.O.S.T.
Abbreviated name:	JSC Registrar R.O.S.T.
Location:	13, building 18, Stromynka Street, Moscow
Mailing address:	P.O. Box 9, 18 Stromynka Street, Moscow, Russia, 107996
Telephone:	+7 (495) 771-7335
Fax:	+7 (495) 771-7334
E-mail:	rost@rrost.ru
Internet address:	www.rrost.ru
License No.:	10-000-1-00264 as of December 3 rd , 2002

Investor relations	
IR Department:	Alexander Yevgenyevich Goldin
Telephone/Fax:	+7 (495) 225-3232/225-3737
E-mail:	GoldinAE@rushydro.ru
IR Department:	Maxim Grigoryevich Novikov
Telephone/Fax:	+7 (495) 225-3232, ext.1394/ +7 (495) 225-3237
E-mail:	novikovmg@rushydro.ru

Media relations	
Press Secretary	Yelena Gennadyevna Vishnyakova
Telephone:	+7 (495) 225-3232, ext. 1099
E-mail:	pr@gidroogk.ru

Depository Bank	
Full name:	The Bank of New York Mellon
ADR EEMEA REL MGMT NY	Vladimir Kotlikov
Telephone:	+1 (212) 815-5948
Fax:	+1 (212) 571-3050
E-mail:	vladimir.kotlikov@bnymellon.com
ADR EEMEA REL MGMT NY	Azat Nugumanov
Telephone:	+1 (212) 815-2570
Fax:	+1 (732) 667-4575
E-mail:	azat.nougumanov@bnymellon.com
Issuer Services	Mark Lewis
Telephone:	+44 0207964-6089
Fax:	+44 0207964-6427
E-mail:	mark.lewes@bnymellon.com
ADR BROKER MARKETING	Michael Ludwig
Telephone:	+1 (212) 815-2275
Fax:	+1 (212) 815-3004
E-mail:	michael.ludwig@bnymellon.com
Issuer Services:	Ian A. Pledger
Telephone:	+44 020 7964-6083
Fax:	+44 020 7964-6427
E-mail:	ian.pledger@bnymellon.com

Auditor	
Full name:	Closed Joint Stock Company HLB Vneshaudit
Abbreviated name:	JSC HLB Vneshaudit
Location:	25-27/2 Bolshaya Yakimanka Street, Moscow, Russia, 109180
Mailing address:	Office 701, Entrance 3, 12 Krasnopresnenskaya Embankment, Moscow, Russia, 123610
Telephone:	+7 (495) 967-0495
Fax:	+7 (495) 967-0497
E-mail:	info@vneshaudit.ru
Internet address:	www.vneshaudit.ru

Branches

Branch Name	Location and Contact Information
The Bureyskaya HPP Branch	Talakan, the Bureysky District, the Amur Region, Russia Telephone +(7) 41634 5 23 59 bureyahpp@gidroogk.ru http://www.burges.rushydro.ru/
The Volzhskaya HPP Branch	1a Lenina Prospect, Volzhsky, the Volgograd Region, Russia Telephone +(7) 8443 34 13 13 office@vges.ru http://www.volges.rushydro.ru/
The Votkinskaya HPP Branch	Chaykovsky, the Perm Region, Russia Telephone +(7) 34241 7 03 59 borisovalp@votges.voheg.ru http://www.votges.rushydro.ru/
The Dagestan Branch	5 M, Khalilova Street, Kaspyisk, the Republic of Dagestan, Russia Telephone: +(7) 8722 55 06 05 drgek@drgek.ru http://www.dagestan.rushydro.ru/
The Zhigulevskaya HPP Branch	Zhigulevsk, the Samara Region, Russia Telephone: +(7) 84862 7 93 59 kutianina@volges.vohec.ru http://www.zhiges.rushydro.ru/
The Zagorskaya PSHP Branch	100 Bogorodskoye, the Sergiev-Posad District, the Moscow Region, Russia Telephone: +(7) 495 957 26 52 +(7) 49654 5 35 18 zagaes@zagaes.ru http://www.zagaes.rushydro.ru/
The Zeyskaya HPP Branch	Zeya, the Amur Region, Russia Telephone: +(7) 41658 2 45 31 kirianenko@zges.amur.ru http://www.zges.rushydro.ru/
Irganaiskaya HPP Branch ⁵	Shamilkala, the Untskulskiy District, the Republic of Dagestan, Russia
The Kabardino-Balkarian Branch	9th kilometer, the Nartan Railway Station, the Kabardino-Balkar Republic, Russia Telephone: +(7) 8662 77 94 05 takuevaMM@gidroogk.ru http://www.kbf.rushydro.ru/
The Kamskaya HPP Branch	The Kamskaya HPP, Perm, Russia Telephone: +(7) 342 273 46 84 officekamges@kamges.gidroogk.ru http://www.kamges.rushydro.ru/
The Karachaevo-Cherkessian Branch	Pravo-Kubansky, the Karachai-Cherkess Republic, Russia Telephone: +(7) 8782 26 70 40 priemges@zelges.ru http://www.kchf.rushydro.ru/
The Cascade of the Verkhnevolzhskiy HPPs Branch	Rybinsk, the Yaroslavl Region, Russia Telephone: +(7) 4855 29 74 59 office@kvvges.vohec.ru http://www.kvvges.rushydro.ru/
The Cascade of the Kubanskiye HPPs Branch	360a, Vodoprovodnaya Street, Nevinnomysk, the Stavropol Region, Russia Telephone: +(7) 86554 6 80 01 kanz@segk.ru http://www.kkges.rushydro.ru/
The Corporate Hydro-Power University Branch	8a Vernadsky Prospect, Moscow, Russia Telephone: +(7) 495 540 30 12, ext. 4008 LebedevaAV@gidroogk.ru http://www.korong.rushydro.ru/
The Nizhegorodskaya HPP Branch	14 Privokzalnaya Street, Zavolzhye, the Gorodetsky District, the Nizhny Novgorod Region, Russia

⁵ On February 29, 2012, the Board of Directors made a decision on Irganayskaya HPP liquidation (Minutes No. 144 of March 1, 2012).

	<p>Telephone: +(7) 83161 7 96 79 morevasf@nigges.vohec.ru http://www.nizhges.rushydro.ru/</p>
The Novosibirskaya HPP Branch	<p>4 Novomorskaya Street, Novosibirsk, Russia Telephone: +(7) 383 345 95 55 svarcvd@gidroogk.ru, kutkinasg@gidroogk.ru http://www.nges.rushydro.ru/</p>
The Saratovskaya HPP Branch	<p>Balakovo, the Saratov Region, Russia Telephone: +(7) 8453 44 20 65 goryunovaen@gidroogk.ru http://www.sarges.rushydro.ru/</p>
The Sayano-Shushenskaya HPP named after P.S. Neporozhniy Branch	<p>Cheremushki, Sayanogorsk, the Republic of Khakassia, Russia Telephone: +(7) 39042 3 26 27 offissges@gidroogk.ru http://www.sshges.rushydro.ru/</p>
The Northern Ossetian Branch	<p>63 Vaso Abayev Street, Vladikavkaz, the Republic of North Ossetia – Alania, Russia Telephone: +(7) 8672 53 66 34 soggk@osetia.ru http://www.osetia.rushydro.ru/</p>
The Cheboksarskaya HPP Branch	<p>34 Naberezhnaya Street, Novocheboksarsk, the Chuvash Republic, Russia Telephone: +(7) 8352 73 75 06 office@chenges.vohec.ru http://www.cheges.rushydro.ru/</p>

GLOSSARY OF KEY TERMS AND ABBREVIATIONS

Company	JSC RusHydro, including its branches and representative offices.
Holding company	JSC RusHydro, including its subsidiaries and dependent companies (SDCs).
SDCs	Subsidiaries and dependent companies - entities, in which another (main) economic entity due to its majority or greater participation in the charter capital or in accordance with a concluded agreement or in another way, has the opportunity to determine decisions adopted by said entities.
JSC RAO UES of Russia	The Russian energy company (until July 1 st , 2008). Full name - Open Joint Stock Company Unified Energy System of Russia. The Company previously united almost all of Russia's energy sector under its umbrella. JSC RAO UES of Russia ceased to exist as of June 30 th , 2008 due to comprehensive energy sector reform.
OGKs	Generating companies of the wholesale electricity market (WEM) – companies formed on the basis of power plants.
TGKs	Territorial generating companies – companies formed during the inter-regional integration of generating assets of JSC-energy (regional generating companies), except generating assets that are included in OGK(s).
IES	Integrated Energy System (IES) – aggregated production and other electricity property assets, connected via a unified production process (including production in the form of the combined generation of electrical and thermal energy) and the supply of electrical energy under conditions of a centralized operating and dispatch management.
HPP	Hydro-electric power plant – the power plant as a unified production and technological complex, combining hydro-technical constructions and equipment that transforms mechanical energy from water into electric energy. In the text of the annual report, except when otherwise noted, tidal power stations and PS HPPs are included as HPPs.
PS HPP	Pump storage hydro-electric power plant – pump-storage power plant, which works by transforming electricity from other power plants into the potential energy of water; during reverse transformation, accumulated energy is contributed to the energy system primarily to cover deficits that may occur during peak load periods.
HTC	Hydro-technical constructions – dams, hydro-electric power plant constructions, spillways, drain and water-discharge constructions, tunnels, channels, pumping stations, navigation locks, boat lifts; buildings used to protect from floods and the destruction of water reservoir shores; dam constructions, protecting the liquid waste reservoirs of production and agricultural organizations; devices that protect against washing-away and other constructions designed to use water resources and to prevent any negative impact from water and liquid waste.
RES	Renewable energy sources – examples include: hydro, solar, wind, geo-thermal, hydraulic energy, energy from water currents, waves, tides, the temperature gradient of sea water, temperature differences between air masses and the ocean, heat from the Earth, animal bio-masses and vegetable and household waste.
WPS	Wind-power stations – equipment that is able to transform kinetic wind energy into electricity (wind-powered generators), located in one or more places. Large wind-power stations may consist of 100 or more wind-powered generators.
FTS	Federal Tariff Service.
ATS	Non-commercial partnership Administrator of the Trading System, which was created in 2001 in accordance with Government Decree N526 “On reform of the Russian power sector”. It focuses on organizing trade and financial payments in the wholesale energy market (WEM).
WEM	Wholesale electricity market (capacity) – sphere for turnover of electrical energy (capacity) within the framework of Russia's integrated energy system within the country's unified economic space with the participation of large electricity producers and consumers that have the status of wholesale market objects, confirmed in full accordance with the Russian Federal Law “On the electric power industry” (by the Russian Government). The criteria for including large electricity producers and consumers in the category of large producers and large consumers are also established by the Russian government.
Installed capacity	Total nominal active capacity of generators at electric power plants which are part of the Group's structure.
NM WEM	The new model of the wholesale electricity and capacity market foresees the transformation of the regulated sector of the wholesale market into a system of regulated contracts (RCs), concluded by wholesale market participants. Electricity and capacity will be sold under RCs. The volume of electricity not sold under RCs will be sold/purchased at free prices on the “day-ahead market” (at prices established as a result of the competitive choice of price applications and with free agreements, where prices are regulated by participants in the agreement(s)). At the same time, if the volume from the price application of purchases did not undergo competitive choice on the day-ahead market, the purchaser will have to buy the respective volumes for consumption on the balancing market.
RC	Regulated contracts are concluded by participants in the wholesale market for a term of 1 to 3 years. The prices in each of these agreements are tariffs for energy suppliers and capacity set by the Russian FTS. The primary condition of the RC is “take or pay”. The supplier has to provide the agreed upon amount of electricity (capacity) and (only for electricity) buy in the market at competitive prices on either the day-ahead market or via a free bilateral agreement. The purchaser has to pay for the agreed upon amount independent of its own planned consumption.
Regulated sector of the wholesale electricity market	The portion of the wholesale electricity market, in which, wholesale trade of a portion of the volume of electricity and capacity are sold at tariffs approved by Russian federal executive organs on the regulation of natural monopolies in an order set by Russian Federal Law “On the State regulation of electricity and thermal energy tariffs in Russia”.
Free trade sector	The sector, in which, the wholesale trade of a portion of produced electricity is concluded and executed in the form of buying and selling contracts and in the form of price bids from buyers and sellers at free (unregulated) prices.
DAM	Day-ahead market – a system that competitively determines the price for suppliers and purchasers on the wholesale electricity market a day ahead of real energy supply, defining hourly equilibrium key prices and supply volumes, conducted by the non-commercial partnership ATS. The day-ahead market defines full production and consumption volumes for electricity at each hour for the following day.

BM	Balancing market – the wholesale electricity market, where trade(s) of electricity volumes that deviate from plans are performed; this deviation is a result of differences between actual and planned supply/consumption volumes.
MW	Megawatt – a unit of measurement for electrical capacity.
kWh	Kilowatt-Hour – a unit of measurement for produced electricity.

APPENDICES

Report on compliance with the UK Code on Corporate Governance

		Mandate	Compliance
SECTION A: LEADERSHIP			
A.1	The Role of the Board	Every company should be headed by an effective board which is collectively responsible for the long-term success of the company	Complies
A.2	Division of Responsibilities	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision	Complies
A.3	The Chairman	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role	Complies
A.4	Non-executive Directors	As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy	Complies
SECTION B: EFFECTIVENESS			
B.1	The Composition of the Board	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively	Complies
B.2	Appointments to the Board	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board	Complies
B.3	Commitment	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively	Complies
B.4	Development	All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge	Partially complies
B.5	Information and Support	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties	Complies
B.6	Evaluation	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors	Does not comply (The requirement is not feasible in the Russian Federation)
B.7	Re-election	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance	Complies
SECTION C: ACCOUNTABILITY			
C.1	Financial And Business Reporting	The board should present a balanced and understandable assessment of the company's position and prospects	Complies
C.2	Risk Management and Internal Control	The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems	Complies
C.3	Audit Committee and Auditors	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor	Complies
SECTION D: REMUNERATION			
D.1	The Level and Components of Remuneration	Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance	Complies
D.2	Procedure	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration	Complies
SECTION E: RELATIONS WITH SHAREHOLDERS			
E.1	Dialogue with Shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place	Complies
E.2	Constructive Use of the AGM	The board should use the AGM to communicate with investors and to encourage their participation	Complies

List of RusHydro's Internal Documents

JSC RusHydro's corporate governance principles and procedures are set forth in the Company's Articles of Association and other internal regulatory documents:

- ❖ The Articles of Association approved by the General Meeting of Shareholders of JSC RusHydro (Minutes No. 7 from July 4th, 2011) registered with District Inspectorate No. 23 of the Federal Tax Service in the Krasnoyarsk Region on July 13th, 2011; State registration number ГPH 2112468448618;
- ❖ JSC RusHydro's Code of Corporate Governance approved by the Board of Directors of JSC RusHydro (Minutes No. 94 from April 2nd, 2010);
- ❖ Corporate Code of Ethics approved by the Board of Directors of JSC RusHydro (Minutes No. 85 from October 05, 2010);
- ❖ Regulations on the Procedure for Preparing and Holding the General Meeting of Shareholders approved by a resolution of the General Meeting of Shareholders of JSC RusHydro (Minutes No. 5 from June 30th, 2010);
- ❖ Regulations on Procedures for Convening and Holding Meetings of the Board of Directors approved by a resolution of the General Meeting of Shareholders of JSC RusHydro (Minutes No. 7 from July 4th, 2011);
- ❖ Regulations on the Audit Commission of the Board of Directors of JSC RusHydro (Minutes No. 116, December 30th, 2010);
- ❖ Regulations on the HR and Remuneration Committee of the Board of Directors approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 59 from July 18th, 2008);
- ❖ Regulations on the Strategy Committee of the Board of Directors approved by a resolution of the Board of Directors of JSC HydroOGK (Minutes No. 5 from April 25th, 2005);
- ❖ Regulations on the Investment Committee of the Board of Directors approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 59 from July 18th, 2008);
- ❖ Regulations on the Reliability, Energy Efficiency and Innovation Committee of the Board of Directors approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 92 from February 11th, 2010);
- ❖ Regulations of the Management Board approved by a resolution of the Annual General Meeting of Shareholders of JSC RusHydro (Minutes No. 1 from June 26th, 2008);
- ❖ Regulations on the Audit Commission approved by the decision of the Management Board of RAO UES of Russia (acting as a general meeting of members) (extract from the Protocol No. 1187pr/3 dated 6 April 2005);
- ❖ Regulations on the Internal Audit and Risk Management Department approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 116 from December 30th, 2010);
- ❖ Regulations on the Internal Audit and Risk Management Department approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 37 from August 15th, 2008);
- ❖ Regulations on Remuneration and Compensation to Members of the Board of Directors approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 5 from June 30th, 2010);
- ❖ Regulations on Remuneration and Compensation to Members of the Audit Commission approved by a resolution of the General Meeting of Shareholders of JSC RusHydro (Minutes No. 1 from June 26th, 2008);
- ❖ Regulations on Dividend Policy approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 85 from October 5th, 2009);
- ❖ Regulations on the Information Policy of JSC RusHydro approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 129 from August 1st, 2011);
- ❖ Regulations on Insider Information for JSC RusHydro approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 129 from August 1st, 2011); and
- ❖ Procedure for Interaction between JSC RusHydro and Entities with RusHydro Participation approved by a resolution of the Board of Directors of JSC RusHydro (Minutes No. 106 from September 1st, 2010).

Please visit the Company's web site at <http://www.rushydro.ru/investors/disclosure/regulations> to review the full text of the above-mentioned documents.

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