

# Annual Report • 2006





Content

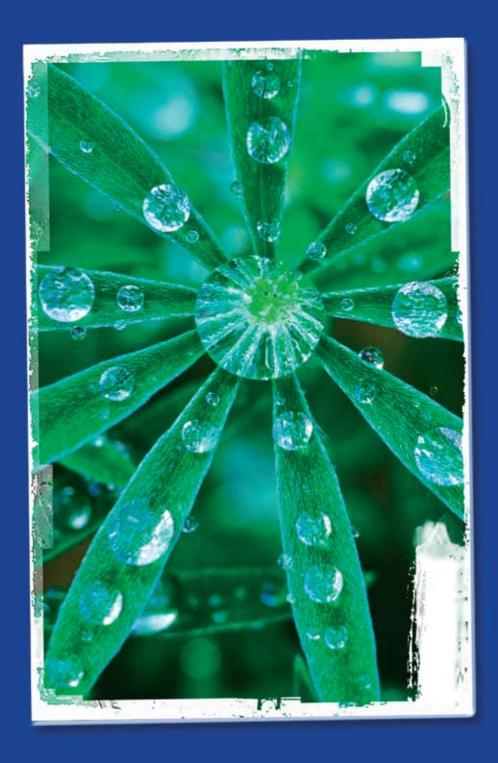
	Key results for 2006	
	Address to the shareholders	~~ 6
	Section 1. RusHydro Holding  General information  Corporate calendar	
	Section 2. Strategy  Mission and strategic goals  Target model for the formation of RusHydro  International activities  Risk management	~ 17 ~ 21
۵	Section 3. Corporate governance  Governance principles  Management structure of JSC RusHydro  Issue activities  Shares in SDCs on the stock market	~~ 30 ~~ 39
	Section 4. Production  Generating capacity  Results of the Holding's production activities  Prospects for the Holding's production activities	~~ 46
	Section 5. Sales  The electricity market  Results of sales activities	
	<ul> <li>Section 6. Business and finances</li> <li>Financial results of the Company</li> <li>Financial results of the Group and of the Holding</li> <li>Credit policy</li> <li>Dividend history</li> </ul>	63 65
	Section 7. Investments and innovations  Principles of the investment policy of the Holding  Implementation of the Investment Programme in 2006  Plan for start-up of hydrogenerating facilities  Priority spheres of the investment programme in 2007  Development of new types of electric power generation on the basis of renewable energy sources	70 70 70 72 73
	Section 8. Social responsibility  Human resources and social policy  Technical safety  Environmental protection  Charitable works  Participation in non-profit organisations	76 79 80 81
	Reference information	
0	Appendixes ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	



# Key results for 2006

	Production indicators of the Holding	
	Installed capacity of electric power plants, MW	22,686.5
	Production of electric power, million kWh	74,595.0
	Staff on the payroll of the companies of the Holding, persons	8,421
	Financial indicators of the Company	
	Revenues of the Company from the sale of goods, output, services, work, thousand roubles	5,494,223
0-	Sales profit of the Company, thousand roubles	- 458,558
	Before-tax profit of the Company, thousand roubles	1,492,620
0-	Net profit of the Company, thousand roubles	1,504,245
0-	Dividends per share, roubles	0.005710211
	Profit per share, roubles	0.010672
0-	Net assets per share, roubles	1.005534
0-	Short-term liabilities of the Company, thousand roubles	1,607,922
0-	Long-term liabilities of the Company, thousand roubles	14,300,000
	Financial indicators of the Holding as a whole	
	Revenues of the Holding from the sale of goods, output, services, work, thousand roubles	24,653,026
0-	Sales profit of the Holding, thousand roubles	5,971,436
0-	Before-tax profit of the Holding, thousand roubles	2,851,466
-	Net profit of the Holding, thousand roubles	1,195,887
	Short-term liabilities of the Holding, thousand roubles	8,969,521
	Long-term liabilities of the Holding, thousand roubles	19,639,653





<sup>\*</sup> The Holding is understood to mean JSC RusHydro and its subsidiaries and dependent companies (hereinafter referred to as SDCs).

# Dear Shareholders!

The year 2006, ISC RusHydro's second year in operation, was a vital stage in the establishment and development of the company. The formation of the holding structure of RusHydro was completed: all the fixed assets envisaged by Directive of the Government of the Russian Federation No. 1254-r, dated I September 2003, were contributed to the authorised capital of JSC RusHydro. As of today, JSC RusHydro is Russia's biggest generating company in terms of installed capacity and the second biggest hydropower company in the world according to this indicator. In 2006, JSC RusHydro initiated implementation of the Company Strategy approved by the Board of Directors. In accordance with this Strategy, the priority goals of JSC RusHydro are to ensure system-wide reliability and safety of the Unified Energy System of Russia, to expand the production of electric power on the basis of renewable sources, and to increase the value of the company. Last year demonstrated a considerable advance in all strategic spheres of activity.

The hydroelectric power plants of JSC RusHydro provided reliable and uninterrupted supplies of electric power to the Electric Power Wholesale Market (the company's HPPs produced one in every fourteen kilowatt-hours in Russia) and ensured stable operation of the energy system. The majority of the hydroelectric power plants saw the launch, on an unprecedented scale, of the programme developed within ISC RusHydro for technical retooling and reconstruction. Its implementation will help extend the HPPs' service lives and will guarantee their accident-free operation for decades to come.

Construction was continued of the company's incomplete hydroelectric power plants: the Bureiskaya HPP in the Amur Region, the Zaramagskiye HPPs in Northern Ossetia, the Kashkhatau HPP in Kabardino-Balkariya, and the shore spillway of the Sayano-Shushenskaya HPP in Khakassiya. In September 2006, construction of the first stage of the Irganaiskaya HPP in Dagestan was completed ahead of time, thereby increasing the station's capacity by 145 MW to reach 360 MW. In December, the third start-up complex of the Zelenchukskaya HPP was brought online, this raising the plant's output 2.5-fold to 500 million kWh. In December, too, construction was completed of the experimental floating module-block for a tidal power plant ordered by JSC RusHydro.

The key event in 2006 was, undoubtedly, the launching of work to complete construction of the Boguchanskaya HPP, with a capacity of 3,000 MW, in the Krasnoyarsk Territory. As of today, this is the biggest energy project under construction in Russia. Also a symbolical event was the beginning of work to build the Gotsatlinskaya HPP, with a capacity of 100 MW, in Dagestan. This is the first hydroelectric power plant in Russia's most recent history construction of which has been launched from scratch.

In 2006, JSC RusHydro made a successful debut on the loan capital market. Securities of the



company's subsidiary ISC RusHydro Management Company, to a sum of 5 billion roubles, were issued and placed, credit was drawn from the European Bank for Reconstruction and Development in the amount of 6.3 billion roubles on terms unique in Russia, as well as credit from Morgan Stanley Bank in the amount of 3 billion roubles. JSC RusHydro received Moody's Agency investment level credit rating - the highest among all Russian generating companies. During 2007, it is planned to initiate the process of forming a target model of the company. This process will be based on long-term fiduciary relations with the minority shareholders of the ISC RusHydro's subsidiary companies and the investment community as a whole. The management of the company will strive to make the formation of the unified company as transparent a process as possible and to ensure observance of rights and the best world corporate governance practices. One of the management's priority goals in the near future is to create a unified operating company and to bring it on to the Russian and international trading floors.

The past year was one during which reserves were created for the activities of the company in the long term. Design and survey work was launched simultaneously on several dozen projects that we count on implementing in the coming decades. These include the South Yakutia hydroelectric power complex, the Nizhne-Zeiskaya and Nizhne-Bureiskaya hydroelectric power plants, a number of other powerful hydroelectric power plants in Siberia and the Far East of Russia, a development programme for pumped storage plants, and a programme for developing small-capacity HPPs. The JSC RusHydro experts have been taking an active part in developing the Master Plan for location of generating capacities during the period up to 2020 and for the longer term up to 2030 and the company's interests will undoubtedly be taken into consideration.

2006 demonstrated that the company's adopted Strategy was the correct one and that the management of ISC RusHydro is capable of fulfilling the set tasks. In the next few years, the company is to launch new projects, building not only hydroelectric power plants, but also tidal and wind power ones. In aggregate, this will allow JSC RusHydro to become the world leader in the sphere of renewable energy.

We are convinced that the company is capable of fulfilling these tasks!

Chairman of the Management Board of JSC RusHydro

V. Sinyugin

Chairman of the Board of Directors of JSC RusHydro



Section #1. RusHydro Holding



# RusHydro Holding



# General information

Open Joint Stock Company Federal Hydrogeneration Company (JSC RusHydro) was founded as a 100% subsidiary company of JSC RAO UES of Russia in accordance with Resolution of the Government of the Russian Federation No. 526, dated 11 July 2001, «The key spheres for reform of electric power generation in the Russian Federation», and by Directive of the Government of the Russian Federation No. 1254-r, dated 1 September 2003 (in the version of 25 October 2004).

The resolution to set up the Company was passed by the Board of Directors of JSC RAO UES of Russia on 24 December 2004. On 26 December 2004, the Company underwent state registration in Krasnoyarsk.

On 31 December 2006, the authorised capital of JSC RusHydro amounted to 140,954,759,856 (one hundred and forty billion, nine hundred and fifty-four million, seven hundred and fifty-nine thousand, eight hundred and fifty-six) roubles and the nominal value of 1 share was 1 rouble.

Payment of the authorised capital consisted of:

on foundation of the company: shares in JSC Volzhskaya HPP, JSC Zhigulevskaya HPP, JSC Votkinskaya HPP, JSC Sayano-Sushenskaya HPP named after P.S. Neporozhny, JSC Nizhegorodskaya HPP, JSC Saratovskaya HPP, JSC Kamskaya HPP, JSC Cascade of Verkhnevolzhskiye HPPs, JSC Zeya HPP, JSC Boguchanskaya HPP, JSC Bureiskaya HPP, JSC Zaramagskiye HPPs, JSC Zelenchukskiye HPPs, JSC Kabbalk HPP, JSC Sulakenergo, JSC RusHydro MC and monetary funds.

On the additional issue (completed in 2006): shares in JSC Cheboksarskaya HPP, JSC Zagorskaya PSHPP, JSC Zaramagskiye HPPs, JSC Zelenchukskiye HPPs,



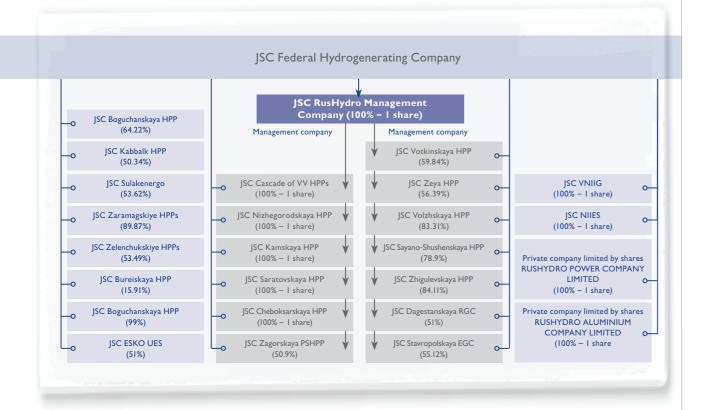


Section #1. RusHydro Holding

JSC Stavropolskaya Electricity Generating Company (JSC Stavropolskaya EGC), JSC Dagestanskaya Regional Generating Company (JSC Dagestanskaya RGC), JSC Scientific Research Institute of Energy Structures (JSC NIIES) and The B.E. Vedeneev All-Russian Reserch Institute of Hydraulic Engineering; the complex of assets of Novosibirskaya HPP; moveable and immoveable assets of JSC RAO UES of Russia used by hydroelectric power plants for producing electric power and performing their current activities, and monetary funds.



# Structure of the JSC RusHydro Holding (as of 31 December 2006)









# Corporate calendar

January	In Yakutsk, under the chairmanship of Russian President Vladimir Putin, a conference was held			
	to discuss questions of the socio-economic development of the Republic of Yakutia (Sakha).			
	Chairman of the Management Board of JSC RusHydro Vyacheslav Sinyugin presented a report			
	on the prospects for building the South Yakutsk hydropower complex (SY HPC).			
	The first meeting was held of the Working Group of JSC RAO UES of Russia on			
	elaborating the prospects for construction of the SY HPC.			
	Full-scale work was launched on the construction site of the Boguchanskaya HPP.			
February	The first hearings on the hydroelectric power industry were held			
	in the State Duma of Russia.			
March	The Board of Directors of JSC RusHydro approved leasing by JSC RusHydro of the assets			
	used by its subsidiary companies for generating electric power.			
	The Federal Financial Markets Service of Russia registered an additional issue of JSC Rus-			
	Hydro shares, placed by means of closed subscription in favour of JSC RAO UES of Russi			
April	By resolution of the Board of Directors of JSC RusHydro, the Subsidiary Novosibirskaya			
	HPP was set up.			
	The Board of Directors of JSC RusHydro passed a resolution on participation by the			
	Company in the corporate structure of the Boguchanskoye Energy and Metal Complex.			
May	JSC RusHydro became a participant on the Wholesale Electricity and Capacity Market			
	(OREM).			
	JSC RusHydro and JSC RUSAL signed an Agreement on co-operation in implementing the			
	project to create the Boguchanskoye Energy and Metal Complex.			
June	The programme for the comprehensive development of the Lower Angara area, the key			
	element of which is construction of the Boguchanskaya HPP, received the support of the Investment Fund of the Russian Federation.			
	JSC RusHydro, the Republic of Dagestan and JSC Dagestanskaya Regional Generating Co-			
	mpany concluded an agreement on provision of support for and interaction on the reform			
	of the hydroelectric power complex of the Republic of Dagestan.			
	The Annual General Meeting of Shareholders of JSC RusHydro was			
	held on the results for 2005.			
July	An issue of five-year rouble securities of JSC RusHydro Management Company to a value			
-	of 5 billion roubles was placed on the Moscow Interbank Currency Exchange.			
	JSC RusHydro and the Amur Region signed an agreement on joint action on aspects of th			
	development of the hydroelectric power industry in the region and improvement of the			
	socio-economic situation.			



August	As a result of payment of additional JSC RusHydro shares, the Company became a
	shareholder in JSC Zagorskaya PSHPP (51%), JSC Stavropolskaya EGC (55%), JSC
	Dagestanskaya Regional Generating Company (51%), JSC Cheboksarskaya HPP (100%-1
	share), JSC NIIES (100%-1 share), and JSC VNIIG (100%-1 share).
	The Government of the Russian Federation approved the list of electric power generating
	facilities to be financed in 2007 using the investment funds of JSC RAO UES of Russia,
	which included JSC RusHydro facilities.
	JSC RusHydro established annual awards for the best scientific and research works in the
	sphere of the hydroelectric power industry.
September	An Extraordinary General Meeting of Shareholders of JSC RusHydro passed a resolution to
	pay out 113,904,000 roubles in interim dividends on the results of the first six months of 2000
	The new, liberalised model of the wholesale and retail markets for electricity (capacity)
	was launched.
	JSC RusHydro and the Volgograd Region concluded an agreement on socio-economic co-
	operation.
	The European Bank for Reconstruction and Development and a syndicate of nine inter-
	national banks extended credit to JSC RusHydro in the amount of 6.3 billion roubles for
	financing the programme for technical retooling and reconstruction of the Volga-Kama
	cascade of power plants.
	JSC RusHydro published the first financial statements of the RusHydro Group drawn up i
	accordance with the International Financial Reporting Standards (IFRS).
	At a meeting at the Ministry for Economic Development and Trade, raising the level of th
	reservoir of the Cheboksarskaya HPP to the design level of 68 metres was recognised as
	the optimum alternative for completing the construction of this hydroelectric scheme.
	JSC RusHydro and the Kabardino-Balkarskaya Republic concluded an agreement on socio
	economic co-operation.
	The first stage of the Irganaiskaya HPP in Dagestan was started up, bringing the power
	plant's capacity up to 400 MW.
	A JSC RusHydro order was signed on beginning construction work at the Gotsatlinskaya
	HPP, with a total installed capacity of 100 MW, on the River Aivarskoye Koisu in Dagestan.
October	The B.E. Vedeneev All-Russian Reserch Institute of Hydraulic Engineering celebrated its
	85th anniversary.
	The second scientific and technical conference «New developments and technologies in
	hydroelectric power industry» was held in St. Petersburg.
November	In the town of Severodvinsk in the Archangelsk Region, at the Sevmash plant, the experi-
	mental floating module block of the Malaya Mezenskaya tidal power plant was floated.
	JSC RusHydro received the first certificate of preparedness for the autumn-winter season
	JSC RusHydro and the Austrian power company Verbund signed a Memorandum of Co-
	operation.



December	An extraordinary General Meeting of the Shareholders of JSC RusHydro passed a reso-
	lution to pay out 809,000,000 roubles in interim dividends on the results for the first 9
	months of 2006.
	The Federal Financial Markets Service of Russia registered the report on the results of th
	additional issue of JSC RusHydro shares by closed subscription in favour of JSC RAO UES
	of Russia.
	JSC RusHydro and Morgan Stanley Bank signed an agreement on provision of credit to
	the Company in the amount of 3 billion roubles for a period of 7 years for financing the
	investment programme.
	JSC RusHydro and the Republic of Northern Ossetia-Alania signed an agreement on soc-
	io-economic co-operation.
	The Central Museum of the hydroelectric power industry was opened on the basis of the
	Uglichskaya HPP in the town of Uglich.
	JSC RusHydro and the Karachai-Cherkess Republic concluded an agreement on socio-eco
	nomic co-operation.
	The third start-up complex of the Zelenchukskiye HPPs was commissioned, thereby incre
	· · · · · · · · · · · · · · · · · · ·
	asing the amount of electric power generated 2.7-fold to reach 500 million kWh.
	JSC RusHydro and the Saratov Region signed an agreement on co-operation.





# Strategy



# Mission and strategic goals

Mission of the Company – The Company's mission is to make efficient use of Russia's hydropower resources, maintain the reliability of the country's unified energy system, and expand the utilisation of new renewable energy sources for the benefit of the Company and its shareholders.

## The strategic goals of the Company are:

• To ensure system reliability and safety

To improve system reliability and safety means to increase the quality of the system services provided by JSC RusHydro to maintain the reliability of the Unified Energy System of Russia, as well as measures guaranteeing provision of reliable services to consumers, ensuring safe operation of hydroengineering facilities, precluding threats of flooding of territories and providing for reserves for water supply and navigation purposes.

• To expand electric power production by using renewable energy sources and to ensure environmental safety Only 20% of Russia's hydropower potential is used, while the developed countries' respective figures are between 80% and 95%. In the Russian Federation, there is an opportunity for a considerable increase in the number of hydroelectric power plants and for an increase in the amount of energy produced, accompanied by negligible and controllable detriment to the environment.

Development of the hydropotential of the Far East and Siberia, as well as of small-





capacity HPPs in the Caucasus, is attractive from the point of view of locating power-intensive electricity consumers in the vicinity of hydroelectric power plants. Harnessing of the hydropotential improves business environment, promotes development of the infrastructure and of uninhabited territories, and constitutes a major contribution to the growth of the Russian economy. At the same time, the substantial hydropotential of the Far East and Siberia creates favourable prospects for the Russian power industry to enter the growing electricity markets of China, Korea and Japan. Instruments for fulfilling a number of geo-economic and geo-political tasks are thus created.

• To increase the Company's value

The main tasks faced in increasing the value of the Company are:

- To update and improve the quality of the Company's portfolio of power assets;
- To reduce the amount of subsidising of individual regions and consumers, as well as the market as a whole;
- To increase the proportion of sales on the competitive electricity and capacity market, provide for competitive price-formation on the system services market through active participation in elaboration of the model for the electricity market and promotion of resolutions meeting the economic interests of the Company and active work in conjunction with the executive state authorities on rationalising tariff policy;
- To engage in effective sales activities on the electricity markets, relying on the Company's unique competitive advantages;
- To increase returns through higher operating efficiency, in particular through greater efficiency of technological business processes, improvement of the management accounting and reporting systems, modernisation of equipment and cost cutting, including by reducing the duration and cost of the construction and introduction of an appropriate management and personnel incentives system;
- To manage the structure of assets and the portfolio of businesses, including the construction of generating facilities on the basis of renewable energy sources and their integration into business, thereby increasing the Company's incomes;
- To improve the quality of corporate governance.

## The Company's priority spheres of activity in 2007

In accordance with a resolution of the Board of Directors of the Company of 20 December 2006, the strategic priorities of JSC RusHydro for 2007 are:

- To ensure the reliable and accident-free operation of the JSC RusHydro hydroelectric power plants;
- To maximise JSC RusHydro revenues on all existing and future markets;
- To determine the eventual configuration of JSC RusHydro, update and implement the time schedule for transition to the target model;
- To advance the hydroelectric power industry, ensure account is taken of JSC RusHydro proposals for increasing the share of renewable energy sources in Russia's Power Strategy for the period up



Section #2. Strategy

to 2030, and to promote passing of a law «On Renewable Energy Sources (RES)»;

- To improve the system for the planning and construction of the HPPs within JSC RusHydro;
- To capitalise on market advantages and interact with new power-intensive consumers in Russia and, possibly, abroad;
- To determine the prospects for JSC RusHydro participating in new mega-projects in consideration of national objectives, market requirements and the parameters of commercial efficiency;
- To draw financing from various sources for implementing the approved investment programme;
- To arrange relations with minority shareholders, authorities, environmental organisations and society as a whole;
- To adopt and implement a modern human resources development programme and to improve the system of governance of JSC RusHydro.



## Target model for the formation of JSC RusHydro \*

Radical changes are currently under way in the Russian electric power industry: the system of government regulation of the industry is being altered, a competitive electricity market is being created and new companies are being set up. The chief objective of the reform of the electric power industry in Russia is to make the industry's enterprises more efficient, to create the conditions for the industry to develop on the basis of investment incentives and to ensure a reliable and uninterrupted supply of electric power to consumers. The goals and tasks of the reform are set out by Resolution of the Government of the Russian Federation No. 526, dated 11 July 2001, «On the Reform of the Electric Power Industry of the Russian Federation».

In the course of the reform, the industry's structure is being changed: the functions of natural monopolies (transmission of electric power, Integrated Dispatching Authority) and potentially competitive functions (production and sale of electric power, maintenance and servicing) are being separated and the former vertically-integrated companies that used to fulfil all these functions are being replaced with structures specialising in individual types of activity. Generating, sales and maintenance companies will, in the future, become predominantly privately-owned and will compete with one another. In the natural monopoly spheres, on the contrary, government control is being stepped up.

Thus, the conditions are being created for development of a competitive electricity market on which the prices are not regulated by the government but are formed on the basis of demand and supply, while the market participants compete, cutting their costs.

In consideration of subsequent changes in the normative and regulatory base, the goals and tasks of the reform were specified in the Concept of 5+5 Strategy of JSC RAO UES of Russia for 2005-2008.

<sup>\*</sup> Information on the given section in relation to the RusHydro target model is presented as of 1 May 2007.



## Target structure of the Electric Power Industry

ø	Trading System Administrator	ELECTRIC	NUCLEAR POWER STATIONS
Infrastructure	Federal Grid Company – A Holding	POWER	RusHydro
stru	(ITGC Centre and TrunkGCs)	MARKET	Thermal WGCs (6)
ıfra	Holding of interregional distribution	<b>←</b>	TGCs (14)
_	grid companies		Other generation companies
	System Operator		Sales companies
			Repair and servicing companies
	Degree of Control - Russian Federation - owned share		Far East Generation Company
	– More than 75 %		Isolated AO-Energos
	- More than 50 %		
	- Less than 50 %		

According to Resolution of the Government of the Russian Federation No. 526, dated 11 July 2001, a wholesale hydrogenerating company – Open Joint Stock Company Federal Hydrogeneration Company (JSC RusHydro) was set up on the basis of hydroelectric power assets, as subsidiary companies of JSC RAO UES of Russia.

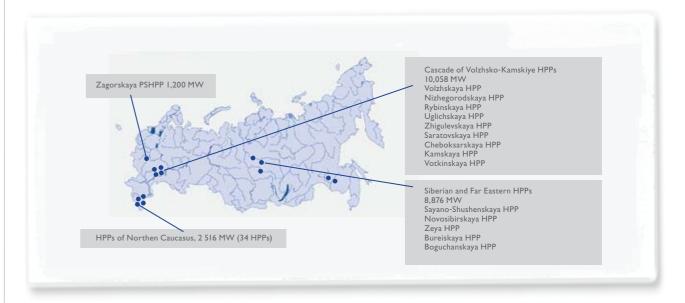
The list of hydroelectric power assets to be included in JSC RusHydro is determined by Resolution of the Government of the Russian Federation No. 1254-r, dated 1 September 2003, «On formation of generating companies of the wholesale electricity market».

JSC RusHydro carries out its activities for the purpose of implementing national policy in the sphere of the hydroelectric power industry, creating the conditions for efficient functioning of the wholesale electricity market, efficiently operating and exercising centralised technological management over hydroengineering facilities, implementing a unified strategy in the sphere of investment and drawing capital to fulfil the system-wide tasks of developing the hydroelectric power industry, elaborating and implementing scientific and technical policy and introducing progressive new types of equipment and technology, including for development of renewable sources of electric power.

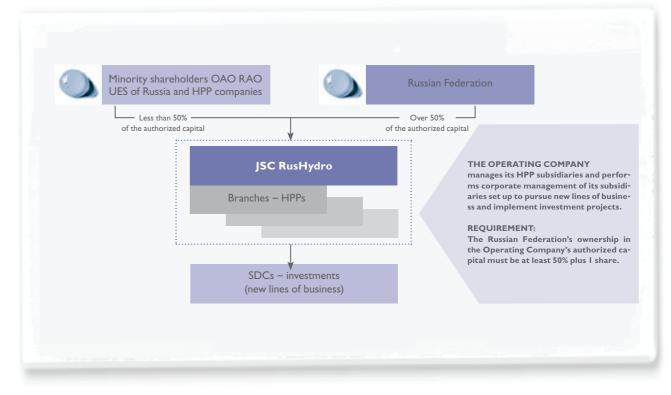


# RusHydro Structure

JSC RusHydro structure pursuant to the Directive of the Government of the Russian Federation Order No. 1254-r, I September 2003 (as amended on 25 October 2004)



# Target Model Of JSC RusHydro - Operating Company







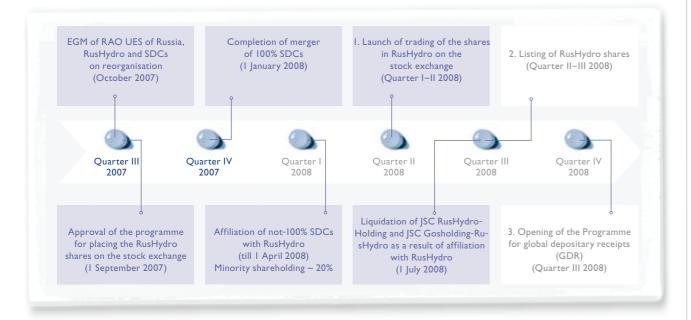
#### Main advantages of the Operating Company:

- · concentration of powers for adopting the necessary strategic solutions and the possibility of rapid and effective decision-making;
- consolidation of investment resources and the possibility of redistributing them;
- effective management of financial flows, high financial manoeuvrability, a reduction in the cost of resources drawn by the company;
- the possibility of using effects of scale and synergy in forming the management system;
- efficient distribution of functions and business processes within the company and its branches;
- implementation of the Company's mission and objectives.

Formation of the JSC RusHydro Operating Company will be completed during 2007-2008 by all the SDCs of JSC RusHydro being absorbed into JSC RusHydro, together with the joint stock companies set up as a result of the reorganisation of JSC RAO UES of Russia (JSC RusHydro-Holding, JSC Gosholding-RusHydro).

The ownership interest of the Russian Federation in the authorised capital of JSC RusHydro at a level of at least 50%+1 share will be ensured through contribution of the shares owned by the Russian Federation in JSC Gosholding-RusHydro, set up as a result of the reorganisation of JSC RAO UES of Russia.

Key measures for implementation of the target model of RusHydro and the timescale for entering the organised securities market



The installed capacity of JSC RusHydro Operating Company (excluding that of subsidiaries and dependent companies) will amount to 21,411.5 MW.



Section #2. Strategy

# 0

#### International activities

The main tasks of JSC RusHydro in the sphere of international co-operation are:

- representation of the interests of the Company and the Russian hydroelectric power industry in the international political, industrial and business spheres;
- bilateral co-operation with foreign electric power, design and engineering companies;
- co-operation with international inter-governmental organisations, industrial and business associations;
- helping the Company draw foreign investments into its promising new projects;
- co-operation in the sphere of exchange of experience, innovations and new technologies in relation to the hydroelectric power industry and renewable energy sources;
- helping the Company integrate into the global energy environment;
- scaling up of interaction with foreign news agencies and mass media with respect to implementation of the Company's unified information policy;
- analytical activities involving monitoring of the processes taking place in the global electric power industry.

  In 2006, specialists of JSC RusHydro took an active part in the work of international industry and business associations:
- Russian-Chinese Business Council non-commercial partnership: co-operation with electric power companies in the sphere of exchanging experience, considering the project for exporting Russian electric power to China, and preparing for meetings and visits at the inter-governmental and corporate level;
- Russian-Indian Business Council non-commercial partnership: holding of preliminary consultations on membership by the Company in the Business Council, participation in a series of meetings with representatives of Indian business, and study of the experience of development of the hydroelectric power industry and renewable energy sources;
- Within the framework of interaction with the International Commission on Large Dams (ICOLD), a JSC RusHydro delegation took part in the 74th Executive Committee and the 22nd International Congress of the International Commission on Large Dams in Barcelona, Spain (15-23 June 2006). Joint work is currently under way with JSC RAO UES of Russia, the Russian National Commission for Large Dams (RNC ICOLD) and Hydropower of Russia non-commercial partnership to prepare for the 75th Executive Committee of the ICOLD in 2007, in St. Petersburg;
- JSC RusHydro is considering the possibility of joining and actively co-operating with the International Hydro-power Association (IHA), the World Economic Forum (WEF) and the Edison Electric Institute (EEI). In the sphere of co-operation with foreign companies, bilateral work was carried out in 2006 to develop partner-ship relations and exchange experience with the biggest foreign power companies, such as: Statkraft, Enel, Verbund, HydroQuebec, EDF, Norsk Hydro and so on. Representatives of the Company have worked on committees of the European Union of the Electricity Industry, EURELECTRIC).



For the purpose of promoting a favourable corporate image of JSC RusHydro and of the hydroelectric power industry as a whole among the world public, representatives of the Company have taken part in international industry, inter-governmental, business and investment events, as well as scientific conferences and forums.

In addition, during the reporting year, active work was carried out on information co-operation with international hydroengineering publishing houses, such as Aqua-Media International (the magazine Hydropower and Dams) and HCl publication (the magazine Hydro Review), as well as international news agencies. Material on the Company has appeared on the Reuters, Bloomberg, Dow Jones, Platts and Global Insight Daily Analysis news wires.

The Company's management is studying the experience of development of the hydroelectric power industry and renewable energy sources throughout the world. Active work is under way to analyse the different international regulation systems and the necessary institutional preconditions for implementing promising investment projects in the sphere of the hydroelectric power industry and renewable energy sources. Within the given sphere of international co-operation, meetings are being held with representatives of government structures and business in order to achieve a better understanding of the processes involved in development of the industry on the global scale.



#### Risk management

The activities of JSC RusHydro are associated with various risk factors that might exert a significant impact on the operations, electric power sales, assets, liquidity and investment activities of the Company.

These are determined by the specific nature of the industry, the Company's activities and the political and economic situation in the country and the region. All assessments and forecasts presented in this Annual Report must be considered in the light of the given risks. In order to minimise the risks, the Company is constantly working to reveal and assess them. In addition, some risks that are not substantial at the given moment might become material and significant in the future.

#### Chief risk factors that might affect the activities of ISC RusHydro:

#### Political risks

Political risk is engendered by instability of public administration, the possibility of sharp political changes and possible actions on the part of the authorities and reflects on all the activities of the Company and thus on the financial results. For the Company, any interference by and attitude on the part of the government might play a vital role in its activities (decisions on reforming the electric power industry, participation in or support for the Company on the investment plane). One of the significant political risks for the Company consists of government regulation of the tariffs for the electric power produced, particularly the possibility of tariffs being approved that are





not proportionate to the Company's costs. In order to manage the given risks, sales activities, in particular work on the making of tariff and balance decisions, are performed within the framework of the unified sales service of JSC RusHydro. As the electricity market becomes more liberal, the given risks will be mitigated.

#### Regional risks

The main regional risks exert no direct impact on the Company's operations, since the Company sells electric power directly on the wholesale electricity (capacity) market.

At the same time, regional risks exert a substantial influence on implementation of the capacious investment programme of the Company. For the purpose of reducing the impact of regional risks on implementation of the investment programme, the Company is arranging a dialogue between interested parties (stakeholders' dialogue) in order to manage stakeholders' choices of action connected with projects.

#### Market risks

Notable among the market risks is the risk of inflation, which might give rise to higher Company costs and entail a reduction in profits. In this connection, when the business plans of the Company are drawn up, the inflation rate is always forecast and taken into consideration.

Risks associated with a change in interest rates

In view of the substantial volume of borrowings, the Company might be subject to a risk associated with a change in interest rates. At the present time, on the basis of ongoing analysis of the dynamics of floating interest rates, the Company believes that this is not a substantial risk for it.

## Risks of a change in the exchange rate

The dynamics of the exchange rate of the national currency constitute an important factor determining inflationary processes in the Russian economy. The incomes and expenditures of the Company are denominated in roubles, so the currency risks for the Company are equivalent to the inflationary risks.

#### Liquidity risks

The liquidity risk for the Company, being associated with possible cash gaps, is neutralised by the following instruments:

- establishment, in the terms and conditions of supply agreements for the main goods, works and services, of payment deferrals no shorter than the average redemption term of the sums owed by the Company's debtors;
- planning of a daily payment calendar (dates of cash receipts and payments);
- establishment of overdrafts on the Company's settlement accounts;
- creation of a cash reserve (precautionary balance) on the Company's accounts.



#### Risks associated with a possible change in the prices and/or services supplied by the Company.

For the Company, this risk is connected with a fall in the sales price of electric power to below the minimum permissible level.

Up until I September 2006, the given risk was minimal, since electric power was sold at a tariff set by the Federal Tariff Service of Russia and, in the free trade sector, prices were always above the tariffs of the HPP and price fluctuations were negligible.

Since I September 2006, electric power has been sold under regulated agreements and on the day-ahead market \*. Only the part of the electric power produced by the HPPs over and above the volume sold under regulated agreements is sold on the day-ahead market. Since regulated agreements covered, in 2006, 100% of the volume of electric power approved by the plan balance of the Federal Tariff Service of Russia, only an insignificant part of the electric power produced was sold on the day-ahead market. Consequently, in spite of the high volatility of the day-ahead market price, in 2006 the given risk was minimal. For the purpose of mitigating this risk, several free bilateral hedging agreements have been signed for JSC RusHydro and some SDCs, allowing electric power to be supplied to the purchaser at an agreed price, independent of the day-ahead market price.



\* Within the framework of the day-ahead market, a participant is granted an opportunity to purchase, sell electric power under regulated agreements.



Section #2. Strategy

From the time the unified JSC RusHydro was organised, the growth dynamics of the tariffs of the HPPs (PSHPPs) belonging to the Holding have been the highest in the industry, in the main due to inclusion of an investment component in the tariffs. The Company's tariffs are currently the highest among hydroelectric power companies in Russia, which is a justified result of underestimation in previous regulation periods of the HPPs' financing needs for production purposes. In relation to the Kamskaya HPP, a tariff has been set for 2007 in excess of I rouble/kWh. From 2007, with the help of the mechanism by which JSC RusHydro leases SDCs, tariffs have been set for JSC RusHydro by supply point groups of HPPs (PSHPPs) located on the wholesale market.

The launch in September 2006 of the New Wholesale Electricity (Capacity) Market will necessitate a change in the current marketing and sales structure. The annual setting of regulated tariffs is being replaced in relation to a large part of managed facilities by indexation, which creates new requirements on organisation of the work of the tariff services. The increased volatility of prices in the competitive sector of the wholesale electricity (capacity) market, including the appearance of «zero» prices, engenders a need for broader analysis of the current market situation for the purposes of day-to-day decision-making by trading subdivisions. The planned scale of power facilities start-up during the period from 2007 to 2020 requires the marketing subdivision to ensure guaranteed sales of the electric power produced by future HPPs (TPPs, PSHPPs).

#### Credit risks

Delayed payments on the part of JSC RusHydro's business partners under agreements for the sale of electric power and capacity increase the risks of consequent violations by the Company of its obligations to pay its partners under financial and business agreements and the risks of the Company itself receiving counter claims for penalties, as well as additional interest costs charged for the servicing of credits and loans drawn to cover cash gaps.

In accordance with the Regulations on financial settlements on the wholesale electricity market (Appendix No. 16 to the Agreement on joining the wholesale market trading system), the charging of default interest on payment arrears under agreements allows the Company to stabilise payment discipline and compensates in part for unplanned financial costs that might arise in the form of penalties and interest.

In addition, for the purpose of redemption of the Company's accounts receivable arising as a result of failure by business partners to fulfil their obligations under agreements, regular talks are held with defaulters and claims and suits are entered.

#### Legal risks

Legal risks, in particular ones associated with differing interpretations of the legislation, might lead to incorrect tax assessment and payment. In order to reduce these risks, the Company's accounting department is working on improving the methodology for calculating the tax base for different taxes and ensuring that they comply with the effective legislation.

A change in the requirements for licensing of the Company's core activities (connected, for example, with the Water Code of the Russian Federation coming into effect on I January



2007) might lead to an increase in the time involved in drawing up the documents required for prolonging a licence, as well as the need for the Company to comply with the set requirements. Overall, however, the given risk should be deemed negligible, apart from cases when, for prolonging a licence or carrying out activities subject to licensing, requirements are envisaged with which the Company cannot comply or compliance with which is connected with substantial expenses.

In addition, there are risks of losses connected with changes to the legislation, as well as incorrect legal formulation of documents and legal support for the Company's activities. To minimise such risks, all the Company's operations undergo mandatory legal review and legal assessment.

## Corporate governance risks

There exists a risk for the Company (as for all joint stock companies doing business on the territory of the Russian Federation) of a change in the legislation regulating shareholder and corporate relations.

Being the parent company of the RusHydro Holding, the Company is subject to risks of the shareholders appealing against transactions performed by SDCs (both transactions performed without the due approval of the governing bodies of SDCs and ones approved by the governing bodies in the event that it is the approval procedure that the shareholders contest). In order to minimise these risks, when entering into contracts, SDCs always analyse the planned transactions with respect to the need to observe a special approval procedure envisaged by the effective legislation and/or the Articles of Association. If necessary, relevant transactions are presented for approval by the governing bodies of the SDCs (the Board of Directors and/or General Meeting of Shareholders).

#### Environmental and social risks

The Company believes that resolution of environmental and social problems constitutes a precondition for strategic success, stable growth and long-term competitiveness of the Company.

Environmental risks are manifested in the possibility of the dam (reservoir) sections on the upper and lower watertails being exceeded. If the level of the reservoir in the upper or lower section is exceeded, there is a risk of flooding of the shore zones in which production, residential and natural complexes are located. In order to prevent flooding, protective dams and structures are envisaged. The owners of hydroengineering structures are obliged to maintain them in a proper condition and carry out timely repairs and maintenance of damaged sections. For its part, on the basis of weather forecasts for the high water period, the Company notifies the water users in due time of possible changes in the river level, so that they might take the necessary protective steps.

To reduce social risks, the Company fulfils a pension plan, is constantly improving the personnel incentive and professional advancement systems, participates in health and sports programmes and undertakes charitable activities.



Section #2. Strategy

#### Risks associated with the reform

The specific risks associated with the reform of the electric power industry in Russia are manifested in the vagueness of the final stage of the reform (including with respect to the final configuration of JSC RusHydro), as well as in the likelihood (risk) of minority shareholders in SDCs voting against resolutions designed to reorganise the SDCs in the course of the reform.

#### Production risks

Hydroelectric power plants play an important part in ensuring the required quality of the electric power supply by participating in covering the uneven part of the daily load schedule and fulfilling the role of a short-term operating and emergency wattage reserve.

The quite strict operating regime for the main equipment of the power plants leads to a progressive ageing of it.

The unsatisfactory state of the equipment owing to its wear and tear and obsolescence constitutes one of the main reasons for the appearance of production risks, the key ones being:

- a threat of failure by hydroelectric power plants to fulfil properly their general systemic regime and regulating functions (regulation of frequency, voltage and so on), thereby entailing opportunity losses arising in the transformation of the electric power industry;
- a deterioration in the HPPs' operating and economic indicators;
- unfavourable environmental consequences;
- a threat of accidents leading to under-generation of electric power and having serious environmental and social consequences.

  Management of the Company's production risks provides the basis for the system of technical and economic decision-making during planning of programmes for technical impact on equipment (within the framework of future programmes for technical retooling and reconstruction; repair and maintenance).

#### Risks of indeterminate power generation (the water content risk)

The risk of indeterminate power generation by the Company consists in the impossibility of determining the volume of power produced, which might result in the actual values diverging from the planned or forecast ones. In the main, the given risk affects fulfilment of obligations to supply electric power on the New Wholesale Electricity (Capacity) Market (NOREM). Considering that the Company does not currently engage in electric power sales on all the electric power and capacity markets, the given risk is minimised within the scope of the unified sales service of JSC RusHydro by the following methods:

- drafting of proposals for changing the existing normative and regulatory base regarding the freedom for daily planning by HPPs of their own output and submission of price applications for the given volume;
- protection of the interests of HPPs in inter-departmental operating groups of the Federal Water Resource Agency of Russia;
- conclusion of bilateral agreements on the day-ahead market between SDCs of JSC RusHydro.





# Corporate governance

One of the chief factors in raising the efficiency of the JSC RusHydro activities, as well as in achieving an understanding between all entities interested in the activities of the Company, is the continuous improvement of the standard of corporate governance.

Corporate governance within JSC RusHydro is designed not only to create a positive image of the Company in the eyes of stakeholders, but also to exercise control over and mitigate risks, maintain stable growth of the financial indicators and ensure successful operations of JSC RusHydro, as well as of the Holding in general.

The activities of JSC RusHydro are based on pursuit of the principles of corporate governance deriving from the requirements of the legislation in the sphere of corporate law, recommendations of the Code of corporate conduct of the Federal Commission for the Securities Market of Russia and advanced corporate governance standards.



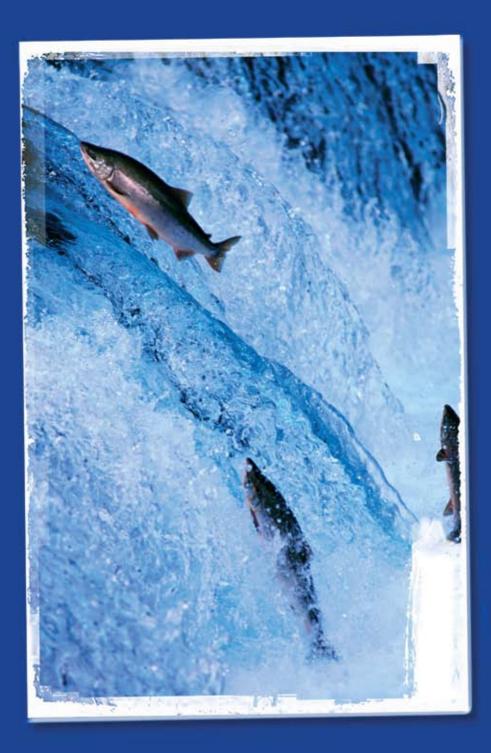
# Governance principles

The main principles for governance of the Company are:

# Responsibility

The Company proceeds from recognition by law of the rights and interests of interested parties (shareholders, potential investors, business partners, consumers, state authorities) and promotes active co-operation with these for the purpose of achieving prosperity, creating jobs and ensuring financial stability. The Company attaches major significance to issues of the environment and social responsibility.





#### Transparency

The Company's corporate governance system ensures provision of all interested parties with full and accurate information about the Company and its activities, without avoiding disclosure of negative information in the volume sufficient for forming the fullest possible perception of the Company and the results of its activities.

#### Accountability

Corporate governance within the Company provides for strategic management of the Company and effective control over management on the part of the Board of Directors, as well as accountability of the Board of Directors to the shareholders.



# Management structure of JSC RusHydro

The governing bodies of the Company are:

- the General Meeting of Shareholders;
- the Board of Directors:
- the Management Board;
- the Chairman of the Management Board.

The body exercising control over the financial and business activities of the Company is the Audit Commission.

#### The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Company, responsible for decision-making on the most important aspects of its activities.

In accordance with clause II.1, article II of the Articles of Association of JSC RusHydro, during the period of ownership by JSC RAO UES of Russia of 100% of the voting shares in the Company, decisions on issues falling within the terms of reference of the General Meeting of Shareholders are taken by the Board of Directors of JSC RAO UES of Russia and the Company is notified thereof in the manner established by the internal documents of JSC RAO UES of Russia regulating the activities of the Board of Directors of JSC RAO UES of Russia.

#### Major decisions of the General Meeting of Shareholders

During 2006, four General Meetings of Shareholders were held.

The Annual General Meeting of Shareholders held on 23 June 2006 approved the Annual Report of the Company on the results of its operations in 2005, the annual financial statements on the results for 2005, and distribution of the Company's profits and losses for 2005, passed a resolution on payment of dividends on the basis of the results for 2005 and the 1st quarter of 2006, elected the Board of Directors and the Audit Commission, and approved the Auditor of the Company, the new version of the Articles of Association of the



Section #3. Corporate governance

Company and the Regulations on payment of remuneration and compensation to the members of the Board of Directors.

On 19 September 2006, the General Meeting of Shareholders passed a resolution on payment of dividends on the basis of the results for the first six months of 2006.

On 8 December 2006, the General Meeting of Shareholders approved the new version of the Regulations on payment of remuneration and compensation to members of the Board of Directors.

On 21 December 2006, the General Meeting of Shareholders passed a resolution on payment of dividends on the basis of the results for the first 9 months of 2006.

#### The Board of Directors

The Board of Directors is a collegial governing body that decides on the Company's development strategy and exercises control over the activities of the executive bodies. The Board of Directors holds the central place in the corporate governance system.

The procedures of the Board of Directors are determined by the Regulations on the procedure for preparing for and holding meetings of the Board of Directors of JSC RusHydro, approved by the General Meeting of Shareholders of the Company (by the Management Board of JSC RAO UES of Russia), Minutes No. 1187pr/3 of 6 April 2005. In the reporting year, the Board of Directors held 13 meetings, 2 of which took place in presentio. The issues considered by the Board of Directors during the reporting period totalled 97.

Thus, at meetings of the Board of Directors, resolutions were passed:

- on mechanisms for implementing the Company's strategy in 2006;
- on identification of the priority spheres of activity of the Company (on receipt of the rights of possession and use of HPPs owned by subsidiaries and dependent companies);
- on setting up a branch of the Company Novosibirskaya HPP in Novosibirsk;
- on participation by the Company in non-commercial organisations (Non-profit Partnership Russian-Chinese Business Council, the All-Russia Industrial Association of Electric Power Industry Employers, Non-profit Partnership Innovations in the Electric Power Industry (NP INVEL), and the New Energy Fund);
- on participation by the Company in the corporate structure of the BEMO project;
- on provision of charitable aid by the Company;
- on drawing credit from the European Bank for Reconstruction and Development;
- on approval of the Report on the results of the additional issue of Company securities.

At meetings of the Board of Directors, the following were also approved:

- Regulations on the technical policy of JSC RusHydro;
- Standard dividend policy of JSC RusHydro in relation to subsidiaries and dependent companies;
- Business plan of the Company for 2006;





- Key Performance Indicators of the Company for 2006;
- Forecast programme for technical retooling and reconstruction of JSC RusHydro for the period from 2006 to 2020;
- Programme for technical retooling and reconstruction of JSC RusHydro for the period from 2006 to 2010;
- Long-term programme for technical retooling and reconstruction;
- Investment Programme of the Company for 2006-2010;
- Programme for implementation of the environmental policy within JSC RusHydro for 2006-2008;
- Standards for development and setting of key performance indicators (KPIs) of subsidiaries and dependent companies of JSC RusHydro;
- Programme for insurance protection of JSC RusHydro for 2006;
- Consolidated Business Plan of the Company for 2006;
- Regulations on the investment activities of JSC RusHydro;
- Code of corporate governance of the Company;
- Regulations on the information policy of the Company.

#### **Composition of the Board of Directors**

(elected by the Annual General Meeting of Shareholders on 23 June 2006 (by the Management Board of JSC RAO UES of Russia), Minutes No. 224)

Victor Khristenko - Minister of Industry and Energy of the Russian Federation, Chairman of the Board of Directors Anatoly Chubais - Chairman of the Management Board, member of the Board of Directors of JSC RAO UES of Russia - Chairman of the Management Board of JSC RusHydro, Member of the Management Board Vyacheslav Sinyugin of JSC RAO UES of Russia, Managing Director of the Hydrogeneration Business Unit Yakov Urinson -Deputy Chairman of the Management Board of JSC RAO UES of Russia, Head of the Corporate Centre of JSC RAO UES of Russia Andrey Rappoport - Chairman of the Management Board of ISC UES FGC, member of the Board of Directors of JSC FGC UES, member of the Management Board of JSC RAO UES of Russia - Member of the Management Board of ISC RAO UES of Russia, Chairman Boris Ayuev

of the Management Board of JSC SO-CDO for EUS Vasily Zubakin

- Deputy Chairman of the Management Board of JSC RusHydro

- Chairman of the Management Board of Non-profit Partnership Administrator

of Trade System

**Dmitry Ponomarev** 

Rustem Khamitov

Per-Christian Endsjo

David Herne

- Managing Director of Halcyon Advisors - Head of the Federal Agency for Water Resources of Russia

- Ex-President of Norsk Hydro Asia Pte Ltd and Hydro Asia Pacific Pte Ltd, Singapore

(Regional Headquarters for Asia, Pacific for Norsk Hydro ASA)

Since JSC RusHydro is a 100% subsidiary company of JSC RAO UES of Russia, members of the Board of Directors of the Company did not enter into any transactions to acquire or dispose of shares.

No suits were entered against members of the Board of Directors in the reporting year.

Remuneration and compensation are paid to members of the Board of Directors in accordance with the Regulations on payment of remuneration and compensation to members of the Board of Directors of Open Joint Stock Company RusHydro, approved by the General Meeting of Shareholders (by the Management Board of JSC RAO UES of Russia), Minutes No. 224 of 23 June 2006.

For participating in a meeting of the Board of Directors (irrespective of the form in which it is held), a member of the Board of Directors of the Company is paid a fee in a sum equivalent to 5 (five) minimum monthly tariff rates of a first rank worker, as established by the industry-wide tariff agreement in the electric power complex of the Russian Federation (hereinafter referred to as the Agreement) on the day on which the meeting of the Board of Directors of the Company is held, in consideration of indexation, as established by the Agreement, within seven calendar days of the holding of the meeting of the Board of Directors of the Company.

The amount of the remuneration paid to the Chairman (Deputy Chairman) for each meeting during which he fulfils the functions of Chairman of the Board of Directors is increased by 50%.

Members of the Board are paid an additional fee on the basis of the net profit indicator of the Company according to the annual financial reporting data approved by the General Meeting of Shareholders of the Company.

The total remuneration paid to members of the Board of Directors of the Company in 2006 (in consideration of the previous composition of the Board) amounted to 2,404,575 roubles. No compensation was paid to members of the Board of Directors in 2006.

#### Committees under the Board of Directors of the Company

Committees of the Board of Directors are set up to cope with issues falling within the terms of reference of the Board of Directors or studied by the Board of Directors in its function of exercising control over the activities of the executive body of the Company, and for drawing up the necessary recommendations to the Board of Directors and the executive body of the Company.

Under the Board of Directors of the Company, a Strategy Committee and a Reliability Committee have been set up.

#### The Strategy Committee

The Strategy Committee was set up by resolution of the Board of Directors and acts in accordance with the Regulations on the Strategy Committee under the Board of Directors of the Company, approved by the Board of Directors of the Company on 25 April 2005 (Minutes No. 5).

The tasks of the Strategy Committee consist in drawing up and presenting recommendations (conclusions) to the Board of Directors on issues relating to the strategic development of the



Section #3. Corporate governance

Company and falling within the terms of reference of the Board of Directors or studied by the Board of Directors in its function of exercising control over the activities of the executive bodies of the Company.

#### **Composition of the Strategy Committee** Kirill Androsov - Deputy Minister of Economic Development and Trade of the Russian Federation - Chairman of the Committee Andrey Dementiev - Deputy Minister of Industry and Energy of the Russian Federation Valentin Mezhevich - Member of the Council of the Federation of the Federal Assembly of the Russian Federation, Senior Vice-Chairman of the Commission of the Council of the Federation for natural monopolies Yevgeny Khilenko - Deputy Head of the Federal Agency for Water Resources (FAWR) of Russia Vyacheslav Sinyugin - Member of the Board of Directors, Chairman of the Management Board of JSC RusHydro; Member of the Management Board of JSC RAO UES of Russia Aivaras Abromavicius - Manager of the East Capital Fund David Herne - Member of the Board of Directors of JSC RusHydro, Managing Director of Halcyon Advisors Vasily Zubakin - Member of the Board of Directors, Deputy Chairman of the Management Board of JSC RusHydro Oleg Oksuzyan - Member of the Management Board of JSC RusHydro

- Member of the Management Board of JSC RusHydro

#### The most important resolutions passed by the Strategy Committee in 2006 were:

• On entry by ISC RusHydro on to the wholesale market

Sergey Pavlenko

- On the draft financial plan for the RusHydro group of companies for 2006-2010
- On the progress of implementation of the Company's development strategy
- On the Investment Programme of the Company for 2007-2011.



#### The Reliability Committee

The Reliability Committee under the Board of Directors of the Company was set up by resolution of the Board of Directors and acts in accordance with the Regulations on the Reliability Committee under the Board of Directors of the Company, approved by the Board of Directors of the Company on 16 December 2005 (Minutes No. 13). The tasks of the Reliability Committee consist in drawing up and presenting recommendations (reports) to the Board of Directors on the following spheres of activity of the Board of Directors:

- expert examination of the investment programmes and plans for repairing power facilities and analysis of their fulfilment from the point of view of meeting the requirements of comprehensive reliability;
- assessment of the comprehensiveness and sufficiency of measures undertaken on the basis of the results of accidents and major technological breakdowns, as well as monitoring of their fulfilment;
- control and assessment of the Company's technical services activities pertaining to:
- ensuring comprehensive operating reliability of equipment and structures;
- ensuring a normal condition of the fixed assets and provision of information on predicted risks relating to their operating reliability;
- analysis of measures to fulfil contractual and economic mechanisms for managing reliability.

# **Composition of the Reliability Committee**

Georgy Tikhonov	- Counsellor to the General Director of JSC RusHydro Management Comp-
	any, Chairman of the Committee
Andrey Zadernyuk	- Technical Director of JSC Mezhregionenergo
	(Settlement Regulation Centre)
Alexander Toloshinov	- Member of the Management Board of JSC RusHydro
Rasim Khaziakhmetov	- Member of the Management Board of JSC RusHydro
David Herne	- Member of the Board of Directors of JSC RusHydro, Managing Director of
	Halcyon Advisors
Alexander Dubrovin	- Chief Engineer of RP Tsentrenergotekhnadzor
Mikhail Lvov	- Head of the Department for technical audit and general inspection of the
	Corporate Centre of JSC RAO UES of Russia



Section #3. Corporate governance

#### The Management Board

The procedure by which the Management Board of the Company operates is determined by the Regulations on the Management Board of Open Joint Stock Company Federal Hydrogeneration Company, approved by the General Meeting of Shareholders (the Management Board of JSC RAO UES of Russia), Minutes No. 1187pr/3 of 6 April 2005.

## Composition of the Management Board of JSC RusHydro

Vyacheslav Sinyugin	- Chairman of the Management Board, Member of the Management Board of
	JSC RAO UES of Russia, Managing Director of Hydrogeneration Business Univ
Vasily Zubakin	-Deputy Chairman of the Management Board of JSC RusHydro, in charge
	strategic forecasting and management in the Company, as well as of human
	resources management in the Company
Oleg Oksuzyan	– Member of the Management Board of JSC RusHydro, Deputy Managing
	rector of Hydrogeneration Business Unit, in charge of corporate governan
	management of capital and capitalisation, reform of the Company
Sergey Pavlenko	- Member of the Management Board of JSC RusHydro, Head of Business
	Unit "Projects", in charge of organisation of the investment activities of the
	Company, including construction of new hydroelectric power facilities
Rasim Khaziakhmetov	- Member of the Management Board of JSC RusHydro, Head of Business Uni
	"Production", in charge of management issues relating to the processes involve
	in production of electric power, organisation of technical servicing, maintenan
	technical retooling and reconstruction of hydroelectric power facilities
Sergey Yushin	- Member of the Management Board of JSC RusHydro, in charge of economi
	planning, financial and tax accounting in the Company
Alexander Sergeyev	- Member of the Management Board of JSC RusHydro, Head of Business
	Unit "Sales", in charge of marketing, electricity markets, organisation of the
	electric power and capacity sales process, management of tariff policy
Alexander Toloshinov	<ul> <li>Member of the Management Board of JSC RusHydro, Head of Business U</li> </ul>
	"Realisation of Investment Projects", in charge of organising the construction
	of hydroelectric power plants and planning of new hydroelectric power plants
	of JSC RusHydro



## Chairman of the Management Board of the Company (Sole executive body)

The terms of reference of the Chairman of the Management Board of the Company include all issues involved in management of the day-to-day activities of the Company, with the exception of questions included in the terms of reference of the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company.

The Chairman of the Management Board of the Company runs the day-to-day activities of the Company in accordance with resolutions of the General Meeting of Shareholders of the Company, the Board of Directors and the Management Board of the Company, passed in compliance with their terms of reference.

On 24 December 2004, Vyacheslav Sinyugin was elected Chairman of the Management Board of ISC RusHydro (directive of JSC RAO UES of Russia No. 163r, dated 24 December 2004, «On Foundation of Open Joint Stock Company Federal Hydrogeneration Company»).

Vyacheslav Sinyugin was born in 1969, graduated from the Law Faculty of the Omsk State University and later gained a post-graduate degree in law at the St. Petersburg State University. From 1999 to 2004, he worked at JSC RAO UES of Russia, heading the Capital Management Department and the Corporate Strategy Department. Then, in connection with the launch of the restructuring of JSC RAO UES of Russia, he was appointed Managing Director of Hydrogeneration Business Unit. Since 2001, he has been a member of the Management Board of ISC RAO UES of Russia and since 2004 has been the General Director of JSC RusHydro Management Company.

The Chairman of the Management Board and the members of the Management Board of the Company are paid remuneration in accordance with their salaries as set in their employment contracts.

The procedure for, conditions and size of mark-ups, additional payments, bonuses and other payments are determined by the Regulations on material incentives to Top Managers of ISC RusHydro, approved by resolution of the Board of Directors of the Company No. 10, dated 10 October 2005.

The total sum of remuneration paid to the Chairman of the Management Board and the members of the Management Board of the Company in 2006 amounted to 10,666,994 roubles.

#### The Audit Commission

For the purpose of exercising control over the financial and business activities of the Company, the General Meeting of Shareholders elects an Audit Commission of the Company for the term up to the next Annual General Meeting of Shareholders.

The operating procedures of the Audit Commission of the Company are determined by the Regulations on the Audit Commission, approved by the General Meeting of Shareholders of the Company (by the Management Board of ISC RAO UES of Russia), Minutes No. 1187pr/3 of 6 April 2005.



Section #3. Corporate governance

# Composition of the Audit Commission of JSC RusHydro

(elected by the Annual General Meeting of Shareholders on 23 June 2006 (by the Management Board of JSC RAO UES of Russia), Minutes No. 224)

**Sergey Sidorov** (Chairman)

- Head of the Internal Audit Department of the Corporate Centre

of JSC RAO UES of Russia

**Dmitry Burnashev** 

- Head of the Business Planning Department of the Corporate Centre of JSC RAO UES of Russia

Yulia Smirnova

- Head of the Corporate Governance Department of JSC RusHydro

Denis Gataulin

- Head of the Section for corporate audit and financial control of the Department for

capital management and control of JSC RusHydro MC

Irina Grin

– Leading expert of the Corporate Governance Department of JSC RusHydro MC

The members of the Audit Commission are paid remuneration in accordance with the Regulations on payment of remuneration and compensation to members of the Audit Commission, approved by the General Meeting of Shareholders (by the Management Board of ISC RAO UES of Russia), Minutes No. 1187pr/3 of 6 April 2005. According to the given Regulations, for participating in a check (audit) of the Company's financial and business activities, a member of the Audit Commission is paid a lump-sum remuneration equal to three times the minimum monthly tariff rate of a first rank worker in consideration of indexation established by the industry-wide tariff agreement. The remuneration is to be paid within a period of one week following compilation of the opinion on the results of the check (audit) performed.



#### Issue activities

As of 31 December 2006, the authorised capital of ISC RusHydro amounted to 140,954,759,856 roubles.

Structure of the authorised capital by category of shares

	Category / type of share	Ordinary registered
_		
0	Total number of placed shares	140,954,759,856 units
-	Nominal value of 1 share	I (one) rouble
	Total nominal value	140,954,759,856 roubles



#### Issue activities of JSC RusHydro

Category of shares	ordinary
Form	uncertified
Nominal value of each share	I rouble
Number of shares	103,951,322,702 units
Total volume of the issue at nominal value	103,951,322,702 rouble
State registration number of the issue	I-0I-55038-E
Date of state registration of the issue	22 February 2005
Authority performing state registration of the issue	Federal Financial Mark
	Service of Russia
Actual placement term of the shares	26 December 2004
Date of registration of the Report on the results of the share issue	22 February 2005
Authority performing state registration of the Report on the results of the share issue	Federal Financial Mark
	Service of Russia
Issue 2	Service of Russia
Issue 2 Category of shares	ordinary
Category of shares	ordinary
Category of shares	ordinary uncertified
Category of shares Form Nominal value of each share	ordinary uncertified I rouble
Category of shares Form Nominal value of each share Placement price of a share	ordinary uncertified I rouble I rouble I kopeck
Category of shares Form Nominal value of each share Placement price of a share Number of shares	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units
Category of shares Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub
Category of shares  Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value  State registration number of the issue  Date of state registration of the issue	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub I-01-55038-E-001D
Category of shares  Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value  State registration number of the issue  Date of state registration of the issue	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub I-0I-55038-E-00ID 21 March 2006
Category of shares Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value  State registration number of the issue	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub I-01-55038-E-00ID 21 March 2006 Federal Financial Mark
Category of shares  Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value  State registration number of the issue  Date of state registration of the issue  Authority performing state registration of the issue	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub I-0I-55038-E-00ID 21 March 2006 Federal Financial Mark Service of Russia
Category of shares  Form  Nominal value of each share  Placement price of a share  Number of shares  Total volume of the issue at nominal value  State registration number of the issue  Date of state registration of the issue  Authority performing state registration of the issue	ordinary uncertified I rouble I rouble I kopeck I20,000,000,000 units I20,000,000,000 roub I-01-55038-E-00ID 21 March 2006 Federal Financial Mark Service of Russia 30 November 2006



Section #3. Corporate governance



# Shares in SDCs on the stock market

JSC RusHydro plans to place its shares on the stock market in 2008.

Currently, shares in the following SDCs of JSC RusHydro are being successfully traded by Russian stock exchanges:

- JSC Volzhskaya HPP
- JSC Votkinskaya HPP
- JSC Zhigulevskaya HPP
- JSC Zeya HPP
- JSC Sayano-Sushenskaya HPP named after Neporozhny
- JSC Stavropolskaya Electricity Generating Company
- JSC Zagorskaya PSHPP
- JSC Dagestanskaya RGC.

Shares in the above companies are included on the list of securities of NP Russian Trading System Stock Exchange and JSC Russian Trading System Stock Exchange, while the shares in JSC Votkinskaya HPP, JSC Zagorskaya PSHPP and JSC Dagestanskaya RGC are also included on the securities lists of ZAO Moscow Interbank Currency Exchange.

The quotation list «B» of NP Russian Trading System Stock Exchange includes ordinary registered shares in:

- JSC Zeya HPP
- JSC Dagestanskaya RGC.

# Results of trading for the period between 1 Jan. 2006 and 31 Dec. 2006, inclusive

ICC V I I I I I I I I I I I I I I I I I	JSC Stock Market Russian Trading System		
JSC Volzhskaya HPP	Ordinary	Preference	
Value of I share at the opening of the period, roubles	6.92	5.56	
Value of 1 share at the closing of the period, roubles	10.03	8.41	
Change in the value of I share	144.94%	151.26%	
Capitalisation at the opening of the period, roubles	19,528,693,160.9	583,434,554.54	
Capitalisation at the closing of the period, roubles	28,402,732,339.38	882,017,180.19	
Ratio of capitalisation to installed capacity at the closing			
of the period, thousand roubles/MW /			
thousand US dollars/MW	11,524.89	9/437.69	



JSC Votkinskaya HPP	CJSC Moscow Interbank Ordinary	Currency Exchange Market Preference	
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW	11.97 17.92 149.7% 4,332,115,751.04 6,485,506,621.44 7,656.44	9.32 15.26 163.73% 808,666,277.76 1,324,060,879.68	
JSC Zhigulevskaya HPP	JSC Stock Market Russia Ordinary	n Trading System  Preference	
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW	4.38 7.36 168.04% 16,920,168,703 28,467,014,468.62	2,74 6.14 224.09% 346,185,211.32 776,637,927.29	
JSC Zeya HPP	JSC Stock Market Russia Ordinary	n Trading System Preference	
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW	6.72 9.64 143.45% 5,439,172,015.76 7,810,081,107.61	4.5 8.43 187.33% 1,022,837,777.21 1,915,905,877.63	
JSC Sayano-Sushenskaya HPP named after Neporozhny	JSC Stock Market Russia Ordinary	JSC Stock Market Russian Trading System  Ordinary Preference	
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share	18.47 32.5 175.96%	16.08 29.5 183.46%	



Section #3. Corporate governance

Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW	35,720,434,759.4 62,832,051,678.33 9,765.96	1,528,904,598.36 2,804,963,161.5 /370.89
JSC Stavropolskaya Electricity Generating Company	JSC Stock Market Russia Ordinary	n Trading System Preference
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW	1.0 3.5 350% 859,074,636 3,006,761,226	0,56 2,9 517,86% 149,776,203,84 760,091,055,6
JSC Zagorskaya PSHPP		nk Currency Exchange Market Ordinary
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW		0.33 0.48 145.45% 9,322,288,701 13,672,690,094.8 11,393.91/432.72
JSC Dagestanskaya Regional Generating Company (JSC Dagestanskaya RGC)		et Russian Trading System Ordinary
Value of I share at the opening of the period, roubles Value of I share at the closing of the period, roubles Change in the value of I share Capitalisation at the opening of the period, roubles Capitalisation at the closing of the period, roubles Ratio of capitalisation to installed capacity at the closing of the period, thousand roubles/MW /thousand US dollars/MW		1.39 1.62 116.55% 7,334,977,575.1 8,527,325,715.27 6,379.39/242.28



Section #4. Production



# Production



Generating capacity

JSC-HPP	Installed capacity, MW	Number of turbogenerator units
JSC Volzhskaya HPP	2,541	23
ISC Votkinskaya HPP	1,020	10
JSC Zhigulevskaya HPP	2,300	20
JSC Kamskaya HPP	501	23
ISC Cascade of Verkhnevolzhskiye HPPs	456,4	6
ISC Nizhegorodskaya HPP	520	8
JSC Saratovskaya HPP	1,360	24
JSC Cheboksarskaya HPP	1,370	18
ISC Zeya HPP	1,330	6
JSC Bureiskaya HPP	1,005	4
JSC Neporozhny Sayano-Sushenskaya HPP	6,721	3
JSC Zagorskaya PSHPP	1,200	6
JSC Stavropolskaya EGC	462,4	29
ISC Sulakenergo	400	2
JSC Zelenchukskiye HPPs	160	2
	1,336,1	22
JSC Dagestanskaya RGC JSC Kabbalk HPP	4,5	
TOTAL*	4,3	22,687

<sup>\*</sup> Not including the Company branch Novosibirskaya HPP (installed capacity – 455 MW, number of turbogenerator units – 7). The branch was set up in April 2006 (by resolution of the Board of Directors of JSC RusHydro, Minutes No. 18 of 10 April 2006). Until the end of 2006, Novosibirskaya HPP was leased by JSC Novosibirskenergo and has been operated by JSC RusHydro since I January 2007.





Section #4. Production



# Results of the Holding's production activities

The drop in the electric power output by the hydroelectric power plants of the Volzhsko-Kamsky Cascade in comparison with 2005 was a result of the low actual water inflow in 2006, which reached only 86% of the norm.

The drop in the electric power output by the Irganaiskaya HPP (JSC Sulakenergo) was engendered by deferral of impoundment of the Irganaiskaya HPP reservoir as a consequence of a change in the regime for the initial stabilisation of the dam in accordance with the recommendations of the Lengidroproekt Institute Branch.

The drop in the electric power output by JSC Dagestanskaya RGC resulted from withdrawal of part of the flow of the River Sulak (Chirkeiskaya HPP) to fill the reservoir of the Irganaiskaya HPP, owing to the low water inflow levels. An increase in the electric power output in comparison with 2005 occurred at JSC Sayano-Sushenskaya HPP named after Neporozhny and JSC Zeya HPP owing to the uniquely high water inflow in 2006, which amounted to 132% and 125% of the norm, respectively.

I	JSC Cascade of Verkhnevolzhskiye HPPs	1,805.4	1,508.0	1,030.
2	ISC Nizhegorodskaya HPP	2,235.5	1,784.0	1,316.4
3	JSC Zhigulevskaya HPP	11,289.0	11,229.0	9,586.
4	ISC Saratovskaya HPP	6,226.0	5,943.0	5,468.
5	ISC Volzhskaya HPP	13,016.2	12,854.0	11,306
6	JSC Kamskaya HPP	1,753.6	1,889.0	1,806.
7	JSC Votkinskaya HPP	2,415.0	2,521.0	2,379.
8	ISC Cheboksarskaya HPP	2,910.1	2,154.0	2,079.
9	JSC Zeya HPP	4,146.9	4,295.0	5,166.
10	JSC Sayano-Sushenskaya HPP named after Neporozhny	25,378.9	23,648.0	26,817
П	JSC Zelenchukskiye HPPs	190.4	199.0	228.3
12	JSC Sulakenergo	729.2	707.0	229.0
13	JSC Dagestanskaya RGC	4,336.0	4,270.0	3,616.
14	JSC Kabbalk HPP	9.8	6.2	11.6
15	JSC Stavropolskaya EGC	1,477.5	1,683.0	1,634.
16	JSC Zagorskaya PSHPP	1,950.2	1,916.0	1,919.4
	TOTAL*	79,869.7	76,606.2	4,595

<sup>\*</sup> Not including JSC Bureiskaya HPP (in which the Company holds 13% of the authorised capital) and JSC Malaya Mezenskaya TPP (which is not in production)







# Prospects for the Holding's production activities

Regulations on technical policy have been elaborated within the Holding to determine the main goals, priorities, principles and restrictions for management of production activities and requirements on technical solutions for planned hydroelectric power plants and ones under construction, the purpose being to achieve the strategic goals of JSC RusHydro. The given Regulations provide the basis on which the Company's production programmes are

On the basis of the Regulations on technical policy, a long-term programme has been elaborated for technical retooling and reconstruction for the period up to 2020, which is designed to achieve the following objectives:

- to increase the reliability, safety and cost effectiveness of equipment through complete replacement of wornout basic and auxiliary equipment;
- to raise the technical and economic characteristics of the HPPs for functioning under the conditions of a competitive electricity market;
- to reduce repair costs as a result of:
- transition from planned preventive maintenance to on-condition and age repair by introducing diagnostic systems for monitoring the basic and auxiliary equipment;
- replacement of old equipment with new one with a longer inter-repair cycle and a smaller volume of scheduled maintenance; introduction of a system of servicing of newly installed and modernised equipment involving the manufacturing plants and service organisations;
- comprehensive automation of all technological processes, with formation of a unified HPP management system based on microprocessor technology and modern software that implement optimisation algorithms for power equipment management.





# Sales



# The electricity market

Since I September 2006, by Resolution of the Government of the Russian Federation No. 529, new rules have been in force governing the functioning of the electricity (capacity) wholesale market. According to the Resolution, a system of regulated agreements between electric power sellers and purchasers is being introduced on to the wholesale market to replace its regulated sector and free trade sector. The agreements are called regulated agreements because the prices charged for electric power thereunder are regulated by the Federal Tariff Service. The volume of electric power not covered by regulated agreements is sold at free prices. There are two methods for trading in electric power in the new model of the wholesale market – free, bilateral agreements and the day-ahead market. Within the scope of free, bilateral agreements, market participants make their own decisions regarding their business partners, prices and supply volumes. The day-ahead market is based on a competitive selection by Administrator of Trade System of price applications submitted by sellers and buyers, one day ahead of the actual supply of the electric power, the prices and supply volumes being determined for each hour of the day. If actual volumes diverge from the supply volumes planned a day ahead, the participants buy or sell them on the balancing market.

One special sector of the new wholesale market consists of trading in capacity, which is performed for the purpose of ensuring reliable and uninterrupted supplies of electric power. Before the new wholesale market rules were introduced, the suppliers would receive a payment of 85% of the installed capacity of the generating equipment, while the purchasers would pay for this capacity within the scope of a single electricity (capacity) tariff. Capacity and electric power are now paid for separately.





Section #5. Sales



## Results of sales activities

#### The chief stages in the work on the electricity (capacity) wholesale market

Receipt of the status of a Participant on the electricity (capacity) wholesale market On 9 March 2006, the Board of Directors of the Company approved a plan for leasing and operating assets used for producing electric power, under which lease agreements secure the right of ownership of JSC RusHydro to the electric power produced. At the same time, JSC RusHydro is also a consumer of the electric power for its own needs. Under agreements on provision of services to maintain, operate and repair equipment, the personnel of the power plant remain responsible for operation of the assets, which guarantees the integrity of the production process and the safety of the hydraulic structures.

On 28 March 2006, the Federal Anti-monopoly Service of the Russian Federation gave its consent (Nos. AG/4343, AG/4344 and AG/4345) to implementation of the asset leasing and operating plan.

Since I May 2006, in accordance with order of the Federal Tariff Service of Russia No. 94-e/5, dated 25 April 2006, JSC RusHydro has been a participant on the electricity (capacity) wholesale market in relation to the supply point groups of the power plants belonging to JSC Saratovskaya HPP, JSC Nizhegorodskaya HPP and JSC Cascade of Verkhnevolzhskiye HPPs.

Since I October 2006, in accordance with order of the Federal Tariff Service of Russia No. 231-e/8, dated 24 October 2006, JSC RusHydro has been a participant on the electricity (capacity) wholesale market in relation to the supply point groups of the power plants belonging to JSC Sayano-Sushenskaya HPP named after Neporozhny, JSC Zeya HPP, JSC Volzhskaya HPP, JSC Zhigulevskaya HPP and JSC Stavropolskaya EGC.

#### Work under NOREM conditions

On I September 2006, various agreements were concluded to provide for the sale and purchase of electric power and capacity under the conditions of the New Model of the electric power and capacity wholesale market (the NOREM) \*, in accordance with the Agreement on accession to the wholesale market trading system, including regulated agreements for the sale and purchase of electricity (capacity).

Thus, during 2006, JSC RusHydro sold electricity (capacity) at both regulated and competitive prices, including:

- from I May to 31 August 2006, in the regulated, free and balancing sectors of the wholesale electricity market;
- from I September 2006, under regulated agreements, on the day-ahead market and the balancing electricity market.



#### Consolidation of sales functions

Section #5. Sales

The functions of sale of and settlements for electric power and capacity with consumers on the wholesale and retail markets by power plants being part of JSC Saratovskaya HPP, JSC Nizhegorodskaya HPP, JSC Cascade of Verkhnevolzhskiye HPPs, JSC Sayano-Sushenskaya HPP named after Neporozhny, JSC Zeya HPP, JSC Volzhskaya HPP, JSC Zhigulevskaya HPP and JSC Stavropolskaya EGC are handed over to JSC RusHydro.

Work has been carried out to formalise and optimise the business processes comprising sales activities on the wholesale market: Regulations have been drawn up and agreed on information exchange between structural subdivisions of JSC RusHydro and subsidiaries and dependent companies of JSC RusHydro whose generating equipment has been leased to JSC RusHydro, as well as other organisations and infrastructural units of the electricity (capacity) wholesale market under the conditions of the new model of the electricity (capacity) wholesale market.







Section #5. Sales

# Key indicators of the operations of JSC RusHydro and of the Holding as a whole on the electricity (capacity) wholesale market

The aggregate volume of electric power supplied by JSC RusHydro during the time it operated on the wholesale market in 2006 amounted to 24,047.59 million kWh, to a total sum of 5,391.86 million roubles, including:

- at regulated prices, supplied to the sum of 3,342.68 million roubles (in consideration of sales in the regulated sector until September 2006 and under regulated agreements thereafter);
- at competitive prices, supplied to the sum of 1,410.82 million roubles (in consideration of the free trade sector until September and the day-ahead market thereafter);
- under free, bilateral agreements 167.57 million roubles;
- revenues from sales of electric power on the balancing market amounted to 470.79 million roubles;
- expenditure on the purchase of electric power on the day-ahead market (in fulfilment of regulated agreements) amounted to 1,588.56 million roubles;
- expenditure on the purchase of electric power on the balancing market amounted to 162.73 million roubles.

  During 2006, SDCs of JSC RusHydro sold electricity (capacity) at regulated and competitive prices, and also operated in the balancing sector.

The aggregate volume of electric power supplied by the SDCs of JSC RusHydro (not including JSC RusHydro) during 2006 amounted to 61.331 billion kWh. The total revenues of the SDCs of JSC RusHydro (not including JSC RusHydro) for the period under consideration amounted to 23.157 billion roubles, including:

- at regulated prices, supplied to the sum of 12,179 million roubles;
- at competitive prices, supplied to the sum of 3,064 million roubles;
- under free, bilateral agreements 191.3 million roubles;
- revenues from the sale of electric power on the balancing market amounted to 1,639 million roubles;
- on the retail market, sold to the sum of 294.8 million roubles;
- under agreements for lease of power equipment and provision of services to maintain, operate and repair the equipment of power plants included in JSC Kamskaya HPP, JSC Votkinskaya HPP, JSC Cheboksarskaya HPP, JSC Saratovskaya HPP, JSC Nizhegorodskaya HPP, JSC Cascade of Verkhnevolzhskiye HPPs, JSC Sayano-Sushenskaya HPP named after Neporozhny, JSC Zeya HPP, JSC Volzhskaya HPP, JSC Zhigulevskaya HPP and JSC Stavropolskaya EGC, to the sum of 5 788.6 million roubles;
- expenditure on the purchase of electric power on the day-ahead market (in fulfilment of regulated agreements) amounted to 709,244 million roubles;
- expenditure on the purchase of electric power on the balancing market amounted to 225,831 million roubles.





# Business and finances



# Financial results of the Company

ndicators	31.12.2005	31.12.2006	Difference
Revenues from sale of output, work, services, thousand roubles	-	5,494,223	5,494,223
Production cost of sold goods, work, services, thousand roubles	98,185	5,951,781	5,853,596
Profit from sales, thousand roubles	(98,185)	(457,558)	(359,373)
nterest receivable, thousand roubles	3,165	325,262	322,097
nterest payable, thousand roubles	(2,925)	(312,594)	(309,669)
ncome from interest in other organisations, thousand roubles	709,039	1,787,065	1,078,026
Other income, thousand roubles	5,7482,583	4,437,360	4,434,777
Other costs, thousand roubles	(12,359)	(4,287,915),	(4,275,556)
Pre-tax profit, thousand roubles	601,318	1,491,620	890,302
Net profit, thousand roubles	624,825	1,504,245	879,420
ROE,%	0.60	1.06	0.46
Return on assets,%	0.59	1.14	0.55





On the basis of the results in the table, the following conclusion may be drawn:

- the increase in the volume of sales and in production costs in the reporting year was connected with the Company obtaining the status of a participant on the OREM in relation to a number of supply point groups;
- · changes in the other income and costs items were largely due to rising income and costs from bill of exchange sales;
- the Company's net profit for the year increased 2.4-fold and amounted to 1,504,245,000 roubles at the reporting period end.

The growth of the return on equity (ROE) and return on assets indicators testifies to the Company's greater returns in 2006 according to various investment indicators.

#### Condensed accounting balance sheet of the Company for the reporting period, thousand roubles

	31.12.2005 г.	31.12.2006 г.
Assets	105,327,258	157,642,744
Intangible assets	-	-
Fixed assets	7,360	2,680,942
Investments in non-working assets	-	206,754
Long-term financial investments	104,146,595	125,475,214
Other non-working assets (in particular deferred tax assets)	24,358	388,118
Stocks	175	49,115
VAT on acquired values	9,836	20,807
Long-term accounts receivable	-	-
Short-term accounts receivable	588,503	22,636,097
Short-term financial investments	450,076	6,097,515
Cash	100,355	88,182
Other working assets	-	-
Liabilities	105,327,258	157,642,744
Authorised capital	103,951,323	140,954,760
Capital surplus	-	391,080
Reserve capital	-	31,241
Targeted financing	-	-
Undistributed prior year's profit	596,936	-
Undistributed current year's profit	-	357,741
Long-term loans and credits	-	14,300,000
Other long-term liabilities	-	-
Short-term loans and credits	450,716	278,032
Accounts payable	300,394	520,890
Debt to founders on payment of incomes	27,889	809,000
Deferred incomes	-	-
Provisions for liabilities and charges	-	-
Other short-term liabilities	-	-



Section #6. Business and finances

During the reporting period, a substantial growth was observed of virtually all the items of balance sheet assets. The biggest increase was in the size of fixed assets and stocks (364 and 281 times, respectively) as a result of JSC RAO UES of Russia receiving, during the reporting period, moveable and immoveable assets in payment for additional shares in JSC RusHydro.

The fixed assets were booked at a monetary value agreed by the founders and determined by an independent appraisal company engaged by JSC RAO UES of Russia.

The aggregate value of the moveable and immoveable assets received amounted to 2,913 million roubles, including:

- fixed assets 2,707 million roubles;
- fixed assets with a value of up to 10,000 roubles and fixed assets not started up 206 million roubles. In addition, a major event subsequent to the reporting date was the conclusion, in March 2007, of agreements with JSC RAO UES of Russia for the purchase of moveable and immoveable assets to an aggregate sum of 1,271 million roubles.

In 2006, the Company took out a loan from the European Bank for Reconstruction and Development (EBRD). The costs associated with drawing the loan, to the total amount of 323 million roubles were included in deferred costs, to be written off in even instalments throughout the term of the loan agreement (maximum loan term is 14 years). Short-term financial investments rose 13.5 times to reach 6,097,515,000 roubles at the close of 2006.

## Structure of short-term financial investments of the Company, thousand roubles

Type of financial investment	31.12.2005	31.12.2006	Difference
KShort-term bills of exchange	450,000	3,097,515	2,647,515
Deposit	0	3,000,000	3,000,000
Other short-term financial investments	76	0	-76
Total short-term financial investments	450,076	6,097,515	5,647,439

In 2006, interest-bearing bills of exchange issued by SDCs, as well as bills issued by JSC Malaya Mezenskaya TPP and JSC Nizhne-Bureiskaya HPP, were purchased from third parties. The bills of exchange were booked on the Company's balance sheet at the purchase price.

The structure of short-term accounts receivable and the reasons for their growth in the reporting period (38 fold or by 22,047,594,000 roubles) will be considered below, during the analysis of the operating indicators of the Company.

Among the balance sheet liabilities, the increase in equity capital (by 35.6% or 37,186,563,000 roubles) should be noted. The change in the authorised capital during 2006 occurred as a result of the additional issue of 37,003,437,154 ordinary shares, placed in favour of JSC RAO UES of



Russia. The additional shares, with a nominal value of I rouble, were offered at a price of I.01 roubles. The income derived from this issue is booked as capital surplus.

The fall in the «Undistributed profit» indicator was a consequence of the dividends booked for 2006.

Long-term credits and loans to the sum of 14,300,000,000 roubles were drawn within the scope of the Borrowings Programme approved by the Board of Directors to finance the technical retooling and reconstruction of the hydroelectric power plants, as well as the Investment Programme.

# Long-term credits and loans of the Company, thousand roubles

Name of lender/creditor	31.12.2005	31.12.2006	Difference
European Bank for Reconstruction and Development (EBRD)  JSC RusHydro MC (bonded loan)  0	0 5.000.000	6,300,000 5,000,000	6,300,000
JSC Saratovskaya HPP (Morgan Stanley)	0	3,000,000	3,000,000
Total long-term credits and loans	0	14,300,000	14,300,000

Short-term liabilities on loans and credits as of 31 December 2006 consisted of interest debt due for payment on long-term loans and credits in January 2007.

The drop in the debt on loans and credits was a result of redemption, in 2006, of the AB Gazprombank credit to the sum of 450 million roubles.

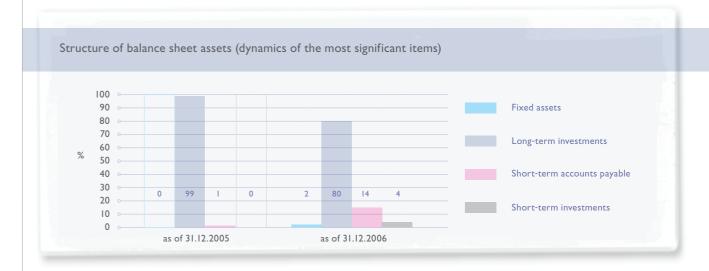
Accounts payable went up by 73% or by 220,496,000 roubles.

The main part of accounts payable consisted of debt to suppliers and contractors – 78% or 407,889,000 roubles, including:

- 276 million roubles as debt to SDCs under agreements for the lease of power equipment and provision of services to maintain, operate and repair power equipment;
- 123 million roubles as debt to CJSC Financial Settlements Centre for electric power acquired on the OREM. The debt to participants with respect to payment of incomes, as of 31 December 2006, consisted of debt on dividends due on the basis of the results of the first 9 months of 2006. As of 1 March 2007 this debt had been fully redeemed. Under the impact of the above changes, the balance sheet total rose by 50% (or by 52,315,486,000 roubles).

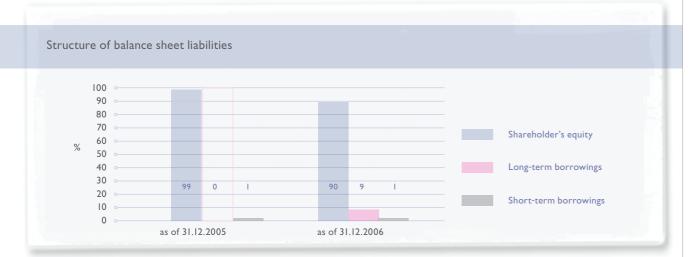


#### Section #6. Business and finances









Over 2006, the structure of the Company balance sheet as a whole did not change substantially. The financial resources for the Company came mainly from equity capital, the share of which fell over the last year by 9%, to constitute 90% of the total.

A major part of the financial resources is invested in non-working assets, the share of which dropped during the reporting period by 17%, to constitute 82% of the total funds.

Long-term financial investments account for the main share of the balance sheet assets – 80%.

Structure of long-term financial investments of the C	Company, thousar	nd roubles	
Name of lender/creditor	31.12.2005	31.12.2006	Difference
Contributions to subsidiaries and dependent companies	104,146,595	118,593,378	14,446,783
Loans granted	-	3,922,556	3,922,556
Debt securities (bills of exchange)	-	2,959,280	2,959,280
Total long-term financial investments	104,146,595	125,475,214	21,328,619

The total sum of long-term financial investments is comprised of investments in SDCs. The main purpose of extending loans to and acquiring bills of exchange of SDCs is to finance the SDC Investment Programme.

The increase in the Company's contributions to SDCs was a consequence of payment by JSC RAO UES of Russia for the additional issue by SDC shares. The value of the said shares was formed on the basis of an evaluation performed by independent appraisers as of I January 2006.

On 31 December 2006, JSC RusHydro did not perform a revaluation of the shares of the SDCs quoted on the RTS stock exchange according to their current market value.

The ratio of equity to borrowed capital of the Company is 90% to 10%; the



Section #6. Business and finances

ratio of short- and long-term borrowed funds is 10% to 90%, respectively, which testifies to stability of the property status and a growth in the Company's potential.

The value of the Company's net assets is calculated in accordance with Order of the Ministry of Finance of the Russian Federation and of the Federal Commission for the Securities Market No. 10n, 03-6/pz, dated 29 January 2003, «On Approval of the Procedure for Assessing the Value of the Net Assets of Joint Stock Companies».

# Estimated value of the net assets of the Company, thousand roubles

Indicators	31.12.2005 г.	31.12.2006 г.
ASSETS		
I. Intangible assets	0	0
2. Fixed assets	7,360	2,680,942
3. Construction in progress	0	206,754
4. Income-yielding investments in material assets	0	0
5. Short-term and long-term financial investments	104,596,671	131,572,729
6. Other non-working assets	24,358	388,118
7. Stocks	175	49,115
8. VAT on values acquired	9,836	20,807
9. Accounts receivable	588,503	22,636,097
10. Cash	100,355	88,182
11. Other working assets	0	0
12. Total assets taken into account (sum of items 1-11)	105,327,258	157,642,744
LIABILITIES		
13. Long-term liabilities on credits and loans	0	14,300,000
14. Other long-term liabilities	0	0
15. Short-term liabilities on credits and loans	450,716	278,032
16. Accounts payable	300,394	520,890
17. Debt to participants (founders) on payment of income	27,889	809,000
18. Accruals	0	0
19. Other short-term liabilities	0	0
20. Total liabilities taken into account (sum of items 13-19)	778,999	15,907,922
21. Value of net assets (item 20 - item 12)	104,548,259	141,734,822

Net assets of the Company at the reporting period end amounted to 141,734,822,000 roubles. During 2006, the said indicator increased by 37,186,563,000 roubles.

Indicators of liquidity, financial stability and business activity of the Company, calculated on the basis of the financial reporting of the Company as they have changed over the last two years, allow the Company's performance for the reporting year to be compared with that for previous years.



#### Analytical ratios of the Company

Indicators	as of 31.12.2005	as of 31.12.2006
Liquidity and financial stability indicators		
Working capital ratio (from 1 to 2.5)	1.47	17.97
Quick ratio (from 0.8 to 1.5)	1.46	17.92
Absolute liquidity (cash) ratio (from 0.2 to 0.8)	0.71	3.85
Equity ratio (>0.5)	0.99	0.90
Financial stability index (>0.8-0.9)	0.99	0.99
Business activity indicators (turnover)		
Assets turnover ratio	0.00	0.04
Accounts receivable turnover ratio	0.00	0.47
Average term of accounts receivable, days	-	761
Accounts payable turnover ratio	0.33	14.49
Average term of accounts payable, days	1,101	25

## Indicators of liquidity and financial stability

In comparison with previous reporting periods, a general increase is observed in all the liquidity ratios, this being, in turn, engendered by a substantial difference in the growth rates of working assets (25-fold or by 27,742,771,000 roubles) and of short-term liabilities (twice or by 828,923,000 roubles). The obtaining situation testifies to the Company's complete solvency.

The level of financial independence (autonomy) of a company is characterised by the unit weight of its equity funds in its total capital. This coefficient exceeds the standard values and there are more equity funds than borrowed funds in the total capital. This means that the greater part of the Company's assets continues to be financed largely out of its equity capital.

The financial stability ratio stands at 99%, this indicating that virtually all the Company's assets are financed from stable sources – equity capital and long-term borrowings.

#### Indicators of business activity (turnover)

On 31 December 2006, the turnover ratio for accounts receivable stood at 0.47 turnovers a year and the average term of accounts receivable was 761 days. In addition, the faster growth of accounts receivable (by 22,047,594,000 roubles) compared to revenues (by 4 785 184,000 roubles) should be noted.



Section #6. Business and finances

As of 31 December 2006, the biggest proportion within the structure of accounts receivable (90.51%) consisted of debts to the Company on acquired non-interest-bearing bills of exchange of SDCs.

Accounts receivable from purchasers and customers include debts for electric power and capacity, in the amount of 464 million roubles, arising in connection with performance of operations to purchase and sell electric power and capacity on the OREM. At the same time, an increase in accounts payable was observed (by 73%), and the turn-over ratio rose from 0.33 to 14.49 turnovers a year, the average term of accounts payable shortening to 25 days. A comparison of the state of accounts receivable and accounts payable at the close of the reporting period prompts the following conclusions:

- the growth rates of the relative and absolute accounts receivable indicators are significantly higher than the growth rates of the relevant indicators for accounts payable. This means that it is not possible to compensate for the entire sum of accounts receivable out of accounts payable and the need arises to draw additional financial and credit resources to cover cash gaps;
- the acceleration of the turnover of accounts payable has a negative impact on the Company's cash balance.

  The assets turnover ratio is a general indicator of use of the company's resources and shows the volume of output sold per rouble invested in the enterprise's business.



# Financial results of the Holding

Main financial and economic indicators of the Holding's activities, thousand roubles

ndicators	31.12.2005	31.12.2006	Difference
Revenues from the sale of goods, output, work and services	13,246,529	24,653,026	11,406,497
Production cost of goods, work and services sold	7,597,959	18,608,663	11,010,704
Sales profit	5,636,367	5,971, <del>4</del> 36	335,069
Interest receivable	32,595	161,083	128,488
Interest payable	-25,030	-236,590	-211,560
Income from equity participation in other organisations	1,406	2,818	1,412
Other income	4,717,751	3,283,262	-1,434,489
Other costs	-6,530,889	-6,330,543	200,346
Pre-tax profit	3,832,200	2,851,466	-980,734
Profit from core activities	2,800,015	1,273,089	-1,526,926
Net profit	2.339.621	1.195.887	-1.143.734



According to the results in the table, the following conclusions may be drawn:

- in the reporting year, the Holding's volume of sales doubled to reach 24,653,026,000 roubles;
- the growth rates of output production costs are comparable to the growth rates of sales volumes;
- in the reporting period, sales profit increased by 6% or 335,069,000 roubles over the previous year;
- the drop in «Other income» occurred in connection with the fall in the turnover of securities trading (placement of temporarily free monetary funds in deposit accounts, the turnover on which is not reflected in the Profit and Loss Statements);
- other costs: the fall was due to transfer of property tax costs to production costs and the drop in the turnover of securities operations (placement of temporarily free monetary funds in deposit accounts, the turnover on which is not reflected in the Profit and Loss Statements);
- in 2006, «Other costs» exceeded «Other income» by 3.1 billion roubles. The substantial rise in losses from the excess of «Other costs» over «Other income» was due to the paid transfer by JSC Sulakenergo of the Makhachkala-Botlikh Road to the ownership of the Republic of Dagestan (I.5 billion roubles), transfer of non-core assets to municipal ownership, expenditures in the inundation zone of the JSC Bureiskaya HPP (I.6 billion roubles), and compensation for the value of purchased power of the sales company on the part of JSC Dagestanskaya Regional Generating Company (0.5 billion roubles);
- in connection with the above changes, the net profit of the Holding fell by almost a half during the year to 1,195,887,000 roubles at the close of the reporting period.

Attention should be drawn to the following material changes in the structure of the Holding's consolidated balance sheet:

- the increase in the balance-sheet value of the fixed assets due to expansion of the Holding's composition;
- the increase in accounts receivable resulting from acquisition by JSC RusHydro of non-interest-bearing bills of exchange of SDCs of JSC RusHydro and SDCs of JSC RAO UES of Russia;
- the increase in short-term financial investments resulting from acquisitions of bills of exchange of third parties;
- the reduction in the profits of the reporting year resulting from the transfer of non-core assets of JSC Sulakenergo and JSC Bureiskaya HPP to state ownership;
- the increase in the debt on long-term credits and loans as a result of a loan taken out by JSC RusHydro from the European Bank for Reconstruction and Development, a loan drawn by JSC Saratovskaya HPP from Morgan Stanley Bank International and of a bonded loan by JSC RusHydro MC.



Section #6. Business and finances

#### Consolidated, condensed financial balance sheet of the Holding for the accounting period, thousand roubles

	31.12.2005 г.	31.12.2006 г.
Assets	171,390,039	237,746,247
Intangible assets	3,584	6,459
Fixed assets	63,527,386	87,097,626
Investments in non-working assets	23,460,027	31,707,476
Long-term financial investments	2,023,603	3,953,610
Other non-working assets (in particular deferred tax assets)	71,803	780,013
Goodwill of subsidiaries	73,997,813	80,807,955
Stocks	623,316	1,087,003
VAT on acquired values	2,315,933	2,105,838
Long-term accounts receivable	618,950	1,348,913
Short-term accounts receivable	3,794,558	22,188,653
Short-term financial investments	428,791	4,867,994
Cash	524,108	1,794,450
Other working assets	166	257
Liabilities	171,390,039	237,746,247
Authorised capital	103,951,323	140,954,760
Treasury stock	-158,224	-
Capital surplus	27,892,666	32,746,894
Reserve capital	187,317	312,486
Targeted financing	-	-
Undistributed profit of prior years	2,907,612	1,079,729
Undistributed current year profit	-	1,175,262
Goodwill of subsidiaries	7,748,646	9,109,124
Minority shareholding	17,179,524	23,758,818
Long-term loans and credits	248,712	14,310,068
Other long-term liabilities (in particular deferred tax liabilities)	614,498	5,329,585
Short-term loans and credits	3,122,100	2,478,041
Accounts payable	2,396,833	4,865,849
Debt to founders on payment of incomes	165,079	932,060
Deferred income	5,133,953	101,482
Provisions for liabilities and charges	-	97,031
Other short-term liabilities	-	495,058



# Credit policy

In 2006, for financing the investment programme of JSC RusHydro, the companies of the Group drew long-term borrowed funds to the sum of 14.3 billion roubles.





## Bonded loan of JSC RusHydro MC

# Key parameters of the bonded loan

Loan guarantor	JSC RusHydro
Form of the issue	Certified
Series	
Nominal amount of the issue	5,000,000,000 roubles
Number of securities in the issue	5,000,000 units
Nominal value of a single security	1,000 roubles
Maturity	5 years (1,820 days)
Coupon period	182 days
Number of coupons	10
Coupon rate	8.10%
Acquisition of the securities at the demand	
of the owners with the possibility of subsequent trading (offer)	n/a
Placement date	5 July 2006
Placement method	Open subscription
Placement price	100% of nominal value
Trading	MICEX
Depositary	NP National Depositary Centre
Manager	KIT Finans Investment Bank (JSC)
Payment agent	KIT Finans Investment Bank (JSC)



# Loan from the European Bank for Reconstruction and Development

In the fourth quarter of 2006, JSC RusHydro drew a loan from the European Bank for Reconstruction and Development (EBRD) in the amount of 6.3 billion roubles for the period up to 2020 to finance the programme for technical retooling and reconstruction of the hydroelectric power plants of the Volzhsko-Kamsky Cascade.

The credit was extended under guarantee of the JSC Kamskaya HPP, JSC Cascade of Verkhnevolzhskiye HPPs, JSC Nizhegorodskaya HPP and JSC Saratovskaya HPP.

The loan consists of two tranches, the first of which was issued out of the EBRD's own funds; the second, in the amount of 4 billion roubles, was extended by a syndicate of nine international commercial banks, organised by the EBRD.





# Morgan Stanley Bank Credit

In the fourth quarter of 2006, JSC Saratovskaya HPP drew a credit from Morgan Stanley Bank in the amount of 3 billion roubles for a period of 7 years under guarantee of JSC RusHydro.

## Moody's Agency international credit rating

In September 2006, Moody's Rating Agency assigned to JSC RusHydro an international credit rating of Baa3 and a national scale rating of Aaa.

The rating is indicative of the investment level, reflecting the reliable financial condition of JSC RusHydro and the Company's strategic significance to the Russian economy.

The international credit rating is one of the most important benchmarks for potential creditors of JSC RusHydro when analysing the Company's financial status, the prospects for its further development, evaluating the risks and determining the level of interest rates on future borrowings.

JSC RusHydro was the first of the generating companies, set up under the reform of the Russian electric power industry, to receive an international credit rating.



## Dividend history

#### Principles of the dividend policy

The frequency with which dividends are paid out is established proceeding from the amount of net profit received during the first quarter, six months, nine months of and/or the entire financial year and depending on the needs of further development of the Company.

Resolutions on payment of dividends are passed by the General Meeting of Shareholders of the Company.

Dividends allocated in 2006 (for 2005)\*

Total sum of dividends593,584,000 roublesDividend per I share0.005710211 roubles

\* in consideration of interim dividends



Section #6. Business and finances

#### Report on payment of dividends in 2006

Reporting period for which the dividends on the shares were paid out

Total declared dividends:

Declared dividends per share

Period allowed for payment of declared dividends



#### Total dividends paid out

Reporting period for which the dividends on the shares were paid out

Total declared dividends:

Declared dividends per share

Period allowed for payment of declared dividends



#### Total dividends paid out

Reporting period for which the dividends on the shares were paid out

Total declared dividends:

Declared dividends per share

Period allowed for payment of declared dividends



#### Total dividends paid out

Reporting period for which the dividends on the shares were paid out

Total declared dividends:

Declared dividends per share

Period allowed for payment of declared dividends



# Total dividends paid out

2005

565,695,000 roubles

0.005441922 roubles

Within a period of 60 days from passing of the resolution on payment of dividends

565,695,000 roubles

1st quarter of 2006

223,599,000 roubles

0.002151 roubles

Within a period of 60 days from passing

of the resolution on payment of dividends

223,599,000 roubles

First 6 months of 2006

113,904,000 roubles

0.00106384 roubles

Within a period of 60 days from passing

of the resolution on payment of dividends

113,904,000 roubles

9 months of 2006

809,000,000 roubles

0.005739439 roubles

Within a period of 60 days from passing of the resolution on payment of dividends

809,000,000 roubles





# Investments and innovations



# Principles of the investment policy of the Holding

JSC RusHydro bases its investment policy on the Company's strategic goals in accordance with the Chief Provisions of the Strategy of JSC RusHydro for the period up to 2010 and the longer term up to 2020, approved by the Board of Directors of JSC RusHydro on 9 November 2005 (Minutes No. 12).

In order to achieve the strategic goals of JSC RusHydro, its Investment Programme includes:

- economically efficient projects that satisfy the parameters of economic efficiency (Net Present Value, Internal Rate of Return, yield index and the like);
- projects designed to increase the reliability of the power supply and the safety of equipment and personnel.



# Implementation of the Investment Programme in 2006

The actual volume of financing of the JSC RusHydro Investment Programme in 2006 amounted to 26,837.7 million roubles. In 2006, the JSC RusHydro Investment Programme was 88.6% fulfilled.

In 2006, the priority sphere of investment remained completion of facilities under construction (the Bureiskaya HPP, Boguchanskaya HPP, Irganaiskaya HPP, Zaramagskiye HPPs, Zelenchukskiye HPPs, Kashkhatau HPP, and the spillway of the Sayano-Shushenskaya HPP). Capital investments in this sphere amounted, during the reporting year, to 19,633.3 million roubles, i.e., 73.2% of the total volume of capital investments of JSC RusHydro during 2006.





Section #7. Investments and innovations

The JSC RusHydro Programme for Technical Retooling and Reconstruction for 2006 amounted to 5,389.3 million roubles, i.e. 20.1% of the total volume of the capital investments in 2006.

Also in 2006, capital investments were made in construction of small-capacity HPPs to a sum of 659.8 million roubles, in construction of the experimental Malaya Mezenskaya TPP to the sum of 320 million roubles, and in performance of design and exploration work on new projects to the sum of 835.2 million roubles.

More detailed information on implementation by the Company and its SDCs of the investment programme in 2006 is presented in Appendix 5.



## Plan for start-up of hydrogenerating facilities

The investment programme of JSC RusHydro for 2006-2010 (approved by the Management Board of JSC RAO UES of Russia on 29 January 2007 (Minutes No. 1606pr) within the scope of the Investment Programme of the Holding JSC RAO UES of Russia for 2006-2010) envisaged start-up of 4,387 MW of capacity during the period 2006-2010.

No.	Investment projects				of capacity,		
		2006	2007	2008	2009	2010	total
					40		
1	Technical retooling and reconstruction	9	14	52	48	38	160
II	Completion of construction	0	677	365	1,035	1,009	3,086
I	Bureiskaya HPP	667	300	35			1,002
2	Boguchanskaya HPP				1,000	667	1,667
3	Zaramagskiye HPPs		10			342	352
4	Irganaiskaya HPP	Increase in	working				
		capao	city				0
5	Kashkhatau HPP			65			65
6	Zelenchukskiye HPPs (water intake facility)	Increase					
		in output					0
Ш	New construction	47 °	5	50	122	917	1,141
7	Zagorskaya PSHPP-2					420	420
8	Wind energy				10	10	20
9	TPPs (Malaya Mezenskaya TPP, Kolskaya TPP)	2				12	14
10	Small-capacity HPPs	2	5	50	100	145	302
П	Dagestanskaya RGC (Chiryurtskaya HPP-3)	44					44
12	Zelenchukskaya HPP-PSHPP,						
	Verkhne-Krasnogorskaya HPP					230	230
13	Gotsatlinskaya HPP					100	100
14	Sochinskaya HPP				12		12
	Total	56	696	467	1,205	1,963	4,387



Section #7. Investments and innovations



## Priority spheres of the investment programme for 2007

The JSC RusHydro Investment Programme includes the following types of facilities, depending on the purpose of the project's implementation:

### Safety of existing structures

• Renovation and reconstruction

The Programme for technical retooling and reconstruction is extremely high priority in connection with the physical wear and obsolescence of equipment and structures.

In 2007, it is planned to carry out technical retooling and reconstruction at all the operating JSC RusHydro power plants.

• Completion of facilities under construction

Implementation of projects of this type is of vital importance owing to the risks associated with incomplete facilities. In 2007, it is planned to carry out work on completing the construction of the Boguchanskaya HPP, Bureiskaya HPP, Zaramagskiye HPPs, Irganaiskaya HPP, Kashkhatau HPP, and the Sayano-Shushenskaya HPP.

### System reliability

For the purpose of covering the shortage of regulating capacity of JSC RusHydro, it is planned to construct PSHPPs in the European part of Russia, including the Zagorskaya PSHPP-2, the Leningradskaya PSHPP and the Zelenchukskaya HPP-PSHPP. In 2007, it is planned to carry out design and exploration work and to launch construction of the Zagorskaya PSHPP-2, the Zelenchukskaya HPP-PSHPP and the Leningradskaya PSHPP, and to carry out design and exploration work on promising PSHPP sites within the framework of the Programme for development of PSHPPs.

## Capacity shortage coverage

Inclusion in the JSC RusHydro Investment Programme for 2007 of this type of project is explained by the need to cover capacity shortages in some parts of the country.

Coverage of the existing capacity shortage

The JSC RusHydro Investment Programme for 2007 envisages financing projects designed to cover existing capacity shortages in certain Russian power grids, in particular in the Bulk Electricity System of the North Caucasus – Gotsatlinskaya HPP, the Cascade of Zelenchukskiye HPPs, the Sochinskiye HPPs and small-capacity HPPs.

• Coverage of predicted capacity shortage

For the purpose of covering the predicted capacity shortage, including in the Bulk Electricity System of Siberia and the Bulk Electricity System of the East, it is planned to perform design



Section #7. Investments and innovations

and exploration work and to launch construction of a number of facilities that are to be brought into production in the period 2010-2020.

In 2007, it is planned to finance the Nizhne-Bureiskaya HPP, Nizhne-Zeiskaya HPP, SYaHPC, the Evenkiiskaya HPP, Nizhne-Angarskaya HPP (Motyginskaya HPP), Mokskaya HPP (cascade on the River Vitim), and the Programme for development of HPPs.

## Development of renewable energy sources

Important for the purpose of developing new types of renewable energy sources (RES) in Russia are wind power and tidal power.

In 2007, JSC RusHydro plans to set up an engineering company to seek private investors in the wind power industry, select sites for construction of power plants and implement projects to construct wind power plants. In 2007, it is planned to perform exploration work to identify promising construction sites for WPP and design and exploration work with respect to priority WPP facilities.

More detailed information on the development of renewable energy sources is provided in the following section.



Development of new types of electric power generation on the basis of renewable energy sources

Development of electric power generation on the basis of renewable energy sources is one of the promising JSC RusHydro lines of business. In particular, the Company is actively working in the area of wind power, tidal power, and small-capacity hydropower.

#### Wind power

In 2006, the feasibility studies were drawn up, with the assistance of JSC RAO UES of Russia, JSC Scientific and Research Institute of Energy Structures, the Danish Energy Authority and the Danish company Rambol, for construction of an offshore wind farm in the Kaliningrad Region with a capacity of 50 MW.

In the Republic of Dagestan, on the River Samur, the small-capacity Agulskaya and Maginskaya HPPs were commissioned, with an installed capacity of 0.6 and 1.2 MW respectively.

Also in 2006, work was relaunched on construction of Aerogenerator-17 of the Kalmytskaya Wind Power Plant, with an installed capacity of 1 MW.



Section #7. Investments and innovations

### Tidal power

Work in the sphere of tidal power is being performed in several areas. During 2006, JSC RusHydro carried out the following main works:

- the property portfolio of JSC Malaya Mezenskaya TPP was completed;
- a technology was developed for a float-on construction method at the experimental power block of the Malaya Mezenskaya TPP;
- feasibility reports were elaborated for construction of the Mezenskaya TPP, the Tugurskaya TPP and the Kolskaya TPP;
- patent protection was finalised in Russia for new technical solutions «Hydropower installation with a vertically orientated shaft for deep-water TPPs»:

## Small-capacity hydropower

For the purpose of expanding the use of renewable energy sources in the Russian Federation, a non-profit organisation has been founded for developing renewable energy sources – «New Energy Fund», the participants in which are JSC RusHydro, Non-state Pension Scheme of the Electric Power Industry and Non-profit investment environmental organisation Energy Carbon Fund. Within the scope of a corresponding agreement with JSC RusHydro, the New Energy Fund is empowered to elaborate and implement a long-term programme for development of the small-capacity hydroelectric power industry.

In regions that are promising for construction of small-capacity HPPs, work was carried out during 2006 to improve the legislation of constituent entities of the Russia Federation. In particular, amendments were introduced into the legislation of the Republic of Northern Ossetia-Alania on provision of property and profit tax benefits and property tax benefits were extended in the Republic of Dagestan for investment projects involving new construction of hydroelectric power plants.

Small-capacity HPPs have been built and, on 6 December 2006, were started up on the water outlets of the municipal sewage treatment plants of Ulyanovsk. The installed capacity of the HPPs is 1.2 MW.

In the mountainous Rutul District in the Republic of Dagestan, preparations were made for launching the Maginskaya (Maikchaiskaya) small-capacity HPP with an installed capacity of 1.2 MW.

In 2006, work was also conducted on development of design and estimate documentation for small-capacity hydropower facilities and on projects for restoration and reconstruction of small-capacity HPPs. In particular, the JSC RusHydro programme for technical retooling and reconstruction for 2007 envisages outlays on restoring the Eshkakonskaya and Uchkulanskaya HPPs in the Karachai-Cherkess Republic.





# Social responsibility



Human resources and social policy

## Principles and goals

The human resources policy of JSC RusHydro is designed to ensure that the Company is staffed with highly-qualified personnel and to create a united team of professionals who are capable of fulfilling current and strategic tasks both rapidly and at a high standard.

The Company's personnel policy is based on an understanding that human resources constitute the chief value. We do everything to ensure that JSC RusHydro employees perceive the results of their work as a contribution to the Company's development and their personal professional success as an integral part of the achievements of the Company as a whole.

Considerable attention is focused within the Company on personnel motivation, on creation of a system of material and moral incentives, as well as on social protection, for employees.

In 2006, within JSC RusHydro, the following key tasks of the Holding's human resources policy were fulfilled:

- development of a unified human resources management policy for the Holding;
- updating of the organisational structure, bringing it into line with the Company's strategic objectives;
- arranging of personnel training in order to raise their qualifications and develop an internal personnel reserve;
- $\bullet$  carrying out of preparatory work for implementation of the «Personnel incentive system» project;





Section #8. Social responsibility

- training and adaptation of and support for personnel with respect to the changes taking place in the Company;
- development of social programmes designed to stimulate employees in light of the adopted business strategy (non-state pension provision, voluntary medical insurance and others).

## Formation and training of the personnel reserve. Personnel instruction and development

In the sphere of personnel instruction and development, JSC RusHydro is striving to provide further training for active, promising and talented employees and to create the conditions for them to untap and realise their creative potential to the full in their work.

The Company's personnel are trained and developed in the following spheres:

- the strategic development of the Company;
- model-building of business processes;
- international financial reporting standards;
- formation of investment projects;
- management of projects and project portfolios.

The Company develops its personnel by investing in employees studying on further training courses, participating in scientific conferences, studying externally at higher and secondary educational institutions, etc., including the following subjects:

- strategy; introduction of the Balanced Scorecard;
- model-building of business processes;
- design and strategy sessions;
- further training in financial analysis and planning;
- training of experts of subsidiaries and dependent companies of JSC RAO UES of Russia in preparing financial reporting according to international standards;
- economic security of a business entity;
- pre-examination training of members of the central personnel review board of JSC RusHydro;
- problems and mechanisms of enforcement of the Federal Law on Technical Regulation in the electric power industry;
- familiarisation with foreign countries' experience of managing generating companies and so on.

## Improvement of the Company's personnel incentive system

Personnel motivation is one of the main components of the human resources policy. During 2006, the following work was conducted in this sphere:



Section #8. Social responsibility

## 1 salary system improvement:

In 2006, employee salaries were paid within JSC RusHydro in accordance with the Company's Regulations on employee salary payment.

The Regulations apply to all Company employees with the exception of Top Managers, whose salary and material incentive terms and conditions are regulated by their employment contracts and the Regulations on material incentives to Top Managers of the Company, approved by the Board of Directors of the Company.

### 2 social benefits provision:

Social security of employees is achieved on the basis of the Regulations on the system of benefits, compensation and other payments of a social character in effect within JSC RusHydro. The Regulations were drawn up in accordance with the Labour Code of the Russian Federation, other legislative acts and regulatory documents of the Russian Federation and of JSC RAO UES of Russia.



## Technical safety

In order to attain one of the Company's strategic objectives – to ensure system-wide reliability and safety of power production, in 2006, JSC RusHydro followed a line of overcoming the obsolescence of and physical wear and tear on fixed assets, raising the level of technical and environmental safety and reliability of hydroengineering facilities and equipment.

The technical safety of HPPs remained, during the reporting period, at an acceptable level and was ensured by an absence of accidents and a drop in the number of technical breakdowns (incidents) compared to 2005 (82 against 98).

One of the main reasons for technical breakdowns, accounting for 38% of the total number, is physical wear and tear on equipment. This confirms yet again that greater reliability and safety of power equipment is directly linked to implementation of the programme for technical retooling and reconstruction up to 2020, its purpose being to replace the main equipment of the HPPs that has outlived its service-life.

During the year, major organisational work was carried out to prepare the HPPs for the storm season, the highwater and fire-danger periods, and the spring-summer repair campaign. This work prevented the occurrence of any fires, group accidents or fatal accidents.

The specific outlays on labour protection per HPP worker amounted to 17,100 roubles a year.

During the reporting year, monthly conference calls were held with the chief engineers of HPPs on issues of reliable and safe operation of hydroengineering facilities, hazardous production facilities, fire safety, occupational safety and health regulations. Two separate on-site conferences were held with the heads of the reliability and technical safety services of the HPPs of JSC RusHydro.



Section #8. Social responsibility

In 2006, preparations were made for checking the readiness of the Holding's HPPs for the autumn-winter period of 2006-2007. The checks were performed by commissions appointed by orders of JSC RAO UES of Russia No. 521, dated 25 July 2006, «On assessment of the readiness of power enterprises for the autumn-winter period» and No. 627, dated 8 September 2006, «On appointment of commissions to check on readiness for the autumn-winter period of 2006-2007».

This was the first year when the Company's readiness was assessed according to the results of checks on the readiness of the HPPs. All the HPPs received certificates of readiness for operation during the autumn-winter period without any significant criticisms and by the established deadlines. The logical conclusion was receipt by JSC RusHydro of its certificate of readiness for the autumn-winter season of 2006-2007.



## Environmental protection

In 2006, all the SDCs of JSC RusHydro conducted work in accordance with the requirements of the Russian Federation legislation in the sphere of environmental protection, including:

- drawing up documents to obtain permits and licences to use water facilities, licences and permits to handle production waste and permits to emit pollutants into the atmosphere;
- timely submitting of reports on 2-TP state statistical reporting forms to state authorities (Departments for technological and environmental supervision and State Statistics Departments);
- timely payment for environmental pollution;
- carrying out of planned nature-protection measures;
- production activities in accordance with the requirements of the Russian Federation legislation in the sphere of environmental protection.

The year 2006 saw elaboration of the Environmental policy of JSC RusHydro and the Concept for implementation of the environmental policy of JSC RusHydro.

JSC RusHydro and the SDCs also developed and approved Programmes for implementation of the environmental policy for 2006-2007. The measures planned by the Programmes for implementation of the environmental policy were carried out in full.

In June-July 2006, on the initiative of the EBRD and within the scope of a Due Diligence (Comprehensive financial and business investigation), the company P yry Energy Ltd. (Switzerland) carried out, in conjunction with the company Frekom (Russia), an independent environmental audit of JSC Cascade of Verkhnevolzhskiye HPPs, JSC Zhigulevskaya HPP, JSC Volzhskaya HPP, JSC Votkinskaya HPP, JSC Kamskaya HPP, JSC Saratovskaya HPP, JSC Cheboksarskaya HPP and JSC Nizhegorodskaya HPP.

According to the results of the environmental audit, work in the sphere of



Section #8. Social responsibility

environmental protection by the audited companies was acknowledged as complying with the requirements of the legislation of the Russian Federation and international standards in the sphere of environmental protection. In May-October 2006, the Directorate for Technical Supervision of JSC RusHydro Management Company carried out internal environmental audits of the following SDCs: JSC Cascade of Verkhnevolzhskiye HPPs, JSC Saratovskaya HPP, JSC Sayano-Sushenskaya HPP named after Neporozhny, JSC Zeya HPP, JSC Nizhegorodskaya HPP and JSC Zelenchukskiye HPPs. According to the results of the internal environmental audit, adjusting measures were developed to improve nature-protection activities.



#### Charitable works

In 2006, JSC RusHydro drew up and approved documents determining the main principles and spheres of the charitable activities of the Holding as a whole:

- the Concept of the charitable and sponsorship activities of JSC RusHydro and the SDCs of JSC RusHydro;
- Regulations on performance of the charitable and sponsorship activities of JSC RusHydro and the SDCs of JSC RusHydro;
- Regulations on and composition of the Commission for the charitable and sponsorship activities of JSC RusHydro and the SDCs of JSC RusHydro.

The main objectives of the charitable and sponsorship activities of JSC RusHydro and of the subsidiaries and dependent companies of the Company are:

- to implement programmes and projects designed to improve the standard of living in society, including in the sphere of: education, healthcare, science, culture and sport, and to provide assistance to impoverished strata of the population;
- to create and promote a public image of the Company and the SDCs facilitating attainment of these goals;
- to form an image of the Company and the SDCs as socially responsible companies, as centres not only of economic, but also public life;
- to ensure public support for the development of renewable energy sources by raising awareness of them.

As socially responsible companies, JSC RusHydro and its SDCs implement sponsorship and charitable programmes in conformity with the legislation of the Russian Federation, the Articles of Association of the Company, the Articles of Association of the SDCs, the Concept of the charitable policy of the Holding JSC RusHydro, as well as the following principles:

- a transition from one-time donations to a policy of comprehensive social responsibility,
- transparent, targeted and effective use of funds allocated for the above purposes.

The charitable and sponsorship activities of JSC RusHydro and its SDCs are performed in the following main spheres:



Section #8. Social responsibility

- provision of assistance to impoverished categories of citizens, disabled people and pensioners, primarily through charitable foundations, organisations and institutions;
- provision of assistance to veterans of the power industry and merited workers of the industry;
- provision of assistance to children's organisations and institutions;
- provision of assistance to medical institutions and healthcare organisations;
- promotion of the restoration of historical and architectural monuments of Russia, development of culture, education, science and sport.

## Chief events in 2006

Key spheres of charitable activities	Name of charitable campaigns, events	Sum, roubles
Provision of assistance to children's organisations	Provision of material assistance to the Maloyaroslave-	
and institutions	tsky children's home, Kaluga Region	250,000
Provision of assistance to medical institutions,	Participation in the «Donors to Children» campaign	
healthcare organisations	Provision of material assistance to the Regional	200,000
Provision of assistance to medical institutions,	Charitable Foundation for Maternal and Child Welfare	
healthcare organisations	«Healthy Generation»	400,000
Promotion of restoration of historical and arch-	Financing of the re-publication of Daniil Granin's book	
itectural monuments of Russia, development of	Into the Storm	
culture, education, science and sport		20,000
Promotion of restoration of historical and arch-	Financing of acquisition of church plate for a church in	
itectural monuments of Russia, development of	the village of Tura, Krasnoyarsk Territory	
culture, education, science and sport		300,000
Promotion of restoration of historical and arch-	Financing of work to renovate the lighting equipment	
itectural monuments of Russia, development of	of the Krasnoyarsk State Opera and Ballet Theatre	
culture, education, science and sport		675,000
Promotion of restoration of historical and arch-	Financing of sporting events of the Federation of	
itectural monuments of Russia, development of	Kickboxing	
culture, education, science and sport		600,000
Promotion of restoration of historical and arch-	Financing of publication of the book The Land Chosen	
itectural monuments of Russia, development of	by Heaven	
culture, education, science and sport		200,000
Promotion of restoration of historical and arch-	Organisation and holding of the charitable event «En-	
itectural monuments of Russia, development of	ergy to Children» Festival	
culture, education, science and sport		1,000,000
Promotion of restoration of historical and arch-	Financing of the activities of the Evenk regional move-	
itectural monuments of Russia, development of	ment «North»	
culture, education, science and sport		175,000
Total, roubles	х	4,000,000



Section #8. Social responsibility

Charitable assistance is rendered to individuals primarily through charitable organisations and institutions on the basis of applications submitted by the latter and documents justifying the rendering of such assistance to a specific individual.

JSC RusHydro and its SDCs do not provide assistance and support to commercial organisations, organisations and representatives of the legislative, judicial and executive authorities, or political parties and movements.



## Participation in non-profit organisations

Full name of non-profit organisation	Location	Sphere of activity of the non-profit organisation	Period of participation
All-Russia Industrial Association of Electric Power Industry Employers (RaEl Association)	Moscow	Promotion of development of business in the electric power industry through representation and protection of the interests of employers in the socio-labour, economic and other spheres, in relations with trade unions, state authorities, local governments, development and pursuit of co-ordinated socially responsible policy by the	since 2006
Non-profit Partnership «Innovation in the Electric Power Industry» (NP INVEL)	Moscow	Association's member organisations  More efficient production by its participants through consolidation of their finances invested in R&D	since 2006
Non-profit Partnership Russian- Chinese Business Council	Moscow	Promotion of development of business links and trade and economic relations between Ru-	since 2006
(NP Russian-Chinese Business Council)		ssia and China, establishment and development of mutually beneficial co-operation between Russian and Chinese business circles	
International Hydropower	London,	Support for and distribution of knowledge on	Resolution on
Association (IHA)	United Kingdom	aspects of the hydropower industry under the	participation in
· ·		auspices of the UNESCO International Hydrological Programme	2006 passed by the Board of Director
New Energy Fund for development	Moscow	Promotion of expanded use of renewable ener-	Resolution on
of renewable energy sources		gy sources in the Russian Federation	participation in
(New Energy Fund)			2006 passed by the
,			Board of Director





## Reference information

Full corporate name of the Company:

Open Joint Stock Company Federal Hydrogeneration Company

Abbreviated company name in Russian: OAO «ГидроОГК», in English: JSC RusHydro

Location of the Company: 51 Ul. Respubliki, Krasnoyarsk, Krasnoyarsk Territory

Postal address: 8a Prospekt Vernadskogo, Moscow, 119311

Details of state registration of the Company:

Date of state registration 26 December 2004

Principal state registration number (OGRN) 1042401810410494

State registration authorityInspectorate of the Ministry of the Russian Federation for Taxes and Levies for the

Zheleznodorozhny District of Krasnoyarsk, Krasnoyarsk Territory

Taxpayer's Identification Number (TIN) 2460066195

Telephone: +7 (495) 540-30-12, 540-30-13

Fax: + 7 (495) 540-30-14

Website: www.gidroogk.ru

E-mail: office@gidroogk.ru

Banking details:

TIN 2460066195

KPP 246001001

Settlement account 40702810800205771190

With JSC AKB EVROFINANS MOSNARBANK, Moscow

Corresponding account 30101810900000000204

BIC 044525204

Sole executive body

Chairman of the Management Board - Vyacheslav Sinyugin

Auditor of the Company

Full company name: Closed Joint Stock Company PriceWaterhouseCoopers Audit



Abbreviated company name: ZAO PWC Audit

Location: 52 Kosmodamianskaya Nab., Bldg. 5, Moscow, 115054

Contact telephone: (495) 967-60-00; fax: (495) 967-60-01

Details of the auditor's licence:

Licence No. E000376, issued on: 20 May 2002

Term of validity: to 20 May 2007 inclusive

Licensing authority: Ministry of Finance of the Russian Federation

Registrar of the Company

Full company name: Open Joint Stock Company Central Moscow Depositary

Abbreviated company name: JSC Central Moscow Depositary

Location: 3 Orlikov Per., Bldg. V, Moscow, 107078

Tel.: (095) 221-1333 Fax: (095) 221-1383

E-mail: mcdepo@dol.ru

Licence: No. 10-000-1-00255, issued on: 13 September 2002

Term of validity: not set

Licensing authority: Federal Commission for the Securities Market

Date from which the register of the issuer's registered securities is maintained by the given registrar: 4 April 2005

Information on the special subdivision of JSC RusHydro for interaction with the mass media:

Department for Targeted Communications of JSC RusHydro

Location: 8a Prospekt Vernadskogo, Moscow, Russian Federation

Telephone/fax: (495) 540-30-12

E-mail: druz@gidroogk.ru

Website of the special subdivision: www.gidroogk.ru

Information on the special subdivision of JSC RusHydro for work with shareholders:

Department for corporate governance of JSC RusHydro

Location: 8a Prospekt Vernadskogo, Moscow, Russian Federation

Telephone/fax: (495) 540-30-12

E-mail: smirnovauv@gidroogk.ru



Appendix 1. Abbreviated accounting balance sheet and profit and loss statements



## Appendix 1.

## Abbreviated accounting balance sheet and profit and loss statements

## Condensed accounting balance sheet of the Company for the reporting period, thousand roubles

	31 December 2005	31 December 2006
Assets	105,327,258	157,642,744
I. NON-WORKING ASSETS		
Intangible assets	-	-
Fixed assets	7,360	2,680,942
Investments in non-working assets	-	206,754
Long-term financial investments	104,146,595	125,475,214
Other non-working assets (in particular, deferred tax assets)	24,358	388,118
TOTAL for Section I	104,178,313	128,751,028
II. WORKING ASSETS		
Inventories	175	49,115
VAT on assets acquired	9,836	20,807
Long-term accounts receivable	-	-
Short-term accounts receivable	588,503	22,636,097
Short-term financial investments	450,076	6,097,515
Cash	100,355	88,182
Other working assets	-	-
TOTAL for Section II	1,148,945	28,891,716
Liabilities	105,327,258	157,642,744
III. EQUITY CAPITAL		
Authorised capital	103,951,323	140,954,760
Capital surplus	-	391,080
Reserve capital	-	31,241
Targeted financing	-	-
Undistributed profit of prior years	596,936	-
Undistributed current year profit	-	357,741
TOTAL for Section III	104,548,259	141,734,822
IV. LONG-TERM BORROWED FUNDS		
Long-term loans and credits	-	14,300,000
Other long-term liabilities	-	-
TOTAL for Section IV	-	14,300,000



Appendix 1. Abbreviated accounting balance sheet and profit and loss statements

	31 December 2005	31 December 2006
V. SHORT-TERM BORROWED FUNDS		
Short-term loans and credits	450,716	278,032
Accounts payable	300,394	520,890
Debt to founders on payment of income	27,889	809,000
Deferred income	-	-
Provisions for liabilities and charges	-	-
Other short-term liabilities	-	-
TOTAL for Section V	778,999	1,607,922

## Profit and loss statements of the Company for the reporting period, thousand roubles

	2006	2005
Revenues (net) from the sale of goods, output, work and services	5,494,223	-
Production cost of goods, output, work and services sold	(5,951,781)	-
Gross profit	(457,558)	-
Commercial costs	-	-
dministrative costs	-	-
Sales profit (loss)	(457,558)	-
Other income and costs	(457,558)	-
nterest receivable	325,262	3,165
nterest payable	(312,594)	(2,925)
ncome from interest in other organisations	1,787,065	709,039
Other income	4,437,360	2,583
Other costs	(4,287,915)	(110,544)
Pre-tax profit (loss)	1,491,620	601,318
Deferred tax assets	12,720	23,507
Deferred tax liabilities	-	-
Current profit tax	-	-
Other similar mandatory payments	(95)	-
Profit (loss) from core activities	1,504,245	624,825
Net profit (undistributed profit (loss)) in the eporting period	1,504,245	624,825



Appendix 2. Auditors' Repo



## **PriceWaterhouseCoopers**

Closed Joint Stock Company
PriceWaterhouseCoopers Audit
(ZAO PwC Audit)
52 Kosmodamianskaya Nab., Bldg. 5,
115054 Moscow
Telephone: +7 (495) 967 6000

Fax: +7 (495) 967 6001

#### **AUDITORS' REPORT**

on Financial Statements

To the Shareholder in Open Joint Stock Company Federal Hydrogeneration Company

#### **Auditor**

Closed Joint Stock Company PriceWaterhouseCoopers Audit

Certificate of state registration of a joint stock company No. 008 890 issued by the Moscow Chamber of Registration on 28 February 1992.

Certificate of entry in the Unified State Register of Legal Entities of a legal entity registered before 1 July 2002, under No. 1027700148431, of 22 August 2002, issued by Interdistrict Tax Inspectorate No. 39 for the City of Moscow of the Ministry for Taxes and Levies of the Russian Federation.

Licence No. E000376 to perform audits was issued by the Ministry of Finance of the Russian Federation on 20 May 2002. Licence valid until 20 May 2007.

## **Audited entity**

Open Joint Stock Company Federal Hydrogeneration Company (abbreviated name - JSC RusHydro).

51 Ul. Respubliki, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation

Certificate of state registration series 24 No. 002237590, dated 26 December 2004, issued by Inspectorate of the Ministry for Taxes and Levies of the Russian Federation for the Zheleznodorozhny District, Krasnoyarsk, Krasnoyarsk Territory.

The firm is an authorised user of the commercial name and trademark "PriceWaterhouseCoopers"



Appendix 2. Auditors' Report

## **PriceWaterhouseCoopers**

Closed Joint Stock Company
PriceWaterhouseCoopers Audit
(ZAO PwC Audit)
52 Kosmodamianskaya Nab., Bldg. 5,
115054 Moscow
Telephone: +7 (495) 967 6000

Fax: +7 (495) 967 6001

#### **AUDITORS' REPORT**

on the Financial Statements of Open Joint Stock Company Federal Hydrogeneration Company
To the Shareholder in Open Joint Stock Company Federal Hydrogeneration Company

- I. We have performed an audit of the enclosed Financial Statements of Open Joint Stock Company Federal Hydrogeneration Company (hereinafter referred to as the "Company") for the period from I January 2006 to 31 December 2006, inclusive. The Financial Statements of the Company consist of the Financial Balance Sheet, Profit and Loss Statements, Statement of Changes in Capital, Statement of Cash Flows, Appendices to the accounting balance sheet and Explanatory note (hereinafter all reports are jointly referred to as the "Financial Statements"). The Financial Statements were drawn up by the management of the Company on the basis of the legislation of the Russian Federation regarding preparation of Financial Statements. Statements prepared proceeding from the said legislation differ materially from statements compiled in accordance with the International Financial Reporting Standards.
- 2. Responsibility for preparing and submitting the Financial Statements is borne by the executive body of the Company. Our obligation consists in expressing an opinion, on the basis of the audit performed, on the accuracy in all material respects of the given Financial Statements and compliance of the financial accounting procedure with the legislation of the Russian Federation.
- We conducted the audit in accordance with the Federal Law on Auditing, the Federal Rules (Standards) for Auditing, the International Auditing Standards and our own internal standards.





The audit was planned and performed in such a manner as to obtain reasonable assurance that the Financial Statements are free of material misstatement. The audit was performed on a sample basis and included a study on the basis of testing of evidence supporting the numerical figures in the Financial Statements and disclosure therein of information on the financial and business activities, assessment of observance of the principles and rules of financial accounting applied during preparation of the Financial Statements, consideration of the key valuation indicators received by the management of the Company, as well as assessment of the presentation of the Financial Statements. We believe that the audit performed constitutes sufficient grounds for expressing our opinion on the accuracy of the Financial Statements and compliance of the financial accounting procedure with the legislation of the Russian Federation.

- In our opinion, the Financial Statements of the Company attached to this Auditors' Report accurately reflect in all material respects the financial position of the company as of 31 December 2006 and the results of its financial and business activities during the period from 1 January 2006 to 31 December 2006 inclusive, in accordance with the requirements of the legislation of the Russian Federation regarding preparation of Financial Statements.
- 5. Without amending the opinion on the accuracy of the Financial Statements, we draw attention to the information presented in clause 3.1.3. of the Explanatory Note of the Company concerning the reasons that its Financial Statements do not reflect financial investments at current market value. The Company justified its decision by the fact that use of the market price in assessing the controlling blocks of shares in subsidiary companies, disposal of which is impossible by virtue of the specifics of the legislation and the activities of the Company, would not allow the property situation and financial results of the Company's activities during 2006 to be reflected accurately.

31 March 2007

Director of the Joint Stock Company

D. Gray

E.R. Orlova

Auditor

Qualification certificate No. K 009069 in the sphere of general audit (termless) Specialo



Appendix 3. Report of the Audit Commission of JSC RusHydro on the results for 2006



Appendix 3.

Report of the Audit Commission of JSC RusHydro on the results for 2006

Moscow 12 April 2007

In accordance with a resolution of the Audit Commission (Minutes No. 2 of the meeting of the Audit Commission of 5 April 2007), the Commission, consisting of: Chairman of the Audit Commission S.B. Sidorov, members of the Audit Commission D.A. Burnashev, D.V. Gataulin, I.A. Grin and Yu.V. Smirnova, conducted an audit of the ISC RusHydro financial and business performance for 2006.

The auditor of JSC RusHydro (ZAO PriceWaterhouseCoopers Audit), elected by the General Meeting of Shareholders (Minutes No. 224 of the Board of Directors of ISC RAO UES of Russia, dated 23 June 2006), carried out an audit of the financial accounting of the Company for the period from I January 2006 to 31 December 2006 inclusive (audit report w/n dated 31 March 2007). In the opinion of the auditor, the financial statements of ISC RusHydro accurately reflect, in all material respects, the financial position as of 31 December 2006 and the results of the financial and business activities for the period from I January 2006 to 31 December 2006 inclusive in accordance with the requirements of the legislation of the Russian Federation with regard to the maintenance of financial accounting.

The audit was carried out between 9 April 2007 and 12 April 2007.

The audit of the source documents submitted was performed on a test basis.

Over 2006, the Company received revenues from the sale of goods, work and services to the amount of 5,494.223 million roubles, including 5,494.22 million roubles from the sale of electric power. The production costs of the sold goods, work and services amounted to 5,951.781 million roubles and losses incurred on sales during the reporting period amounted to 457.558 million roubles.

Interest receivable amounted to 325.262 million roubles and interest payable to 312.594 million roubles. Other income exceeded other costs by 149.445 million roubles and amounted to 4,437.360 million roubles for 2006. Over 2006, the Company generated a net profit in the amount of 1,504.245 million roubles or 97.1% of the planned sum. The book value of the Company's assets as of 31 December 2006 amounted to 157,642.744 million roubles. The value of the net assets as of 31 December 2006 amounted to 141,734.822 million roubles.



Appendix 3. Report of the Audit Commission of JSC RusHydro on the results for 2006

The solvency and liquidity of the Company as of I January 2007 are characterised by the following data:

- the autonomy ratio amounted to 0.9, which is higher than the recommended figure (> 0.5);
- the absolute liquidity ratio stood at 3.8, which is higher than the recommended figure (0.2-0.26);
- the quick assets ratio was 17.9, which is higher than the recommended figure (> 0.95);
- the current ratio was 18.0, which is higher than the recommended figure (1.5-2.5).

The ratio of accounts receivable to accounts payable of JSC RusHydro at the close of 2006 stood at 43.4. The substantially higher than normative liquidity ratios were largely due to the receipt of short-term financial investments (bills of exchange) in the process of an additional issue by JSC RusHydro. For the same reason, accounts receivable significantly exceeded accounts payable.

Analysis of the Company's liquidity ratios for 2006 indicates a stable and reliable solvency trend for the Company, all the ratios being above the recommended levels.

As of I January 2007, the total sum of accounts receivable was 22,047.594 million roubles higher than at the beginning of the year, totalling 22,636.097 million roubles, including: purchasers of electric power on the wholesale market made up 498.554 million roubles, other accounts receivable 22,137.543 million roubles, among them: advances issued total 158.180 million roubles.

As of I January 2006, accounts payable were 220.493 million roubles higher than at the beginning of the year, totalling 520.890 million roubles, including: 407.889 million roubles to other suppliers and contractors, and 0.334 million roubles as wages and salaries.

On the basis of the audit performed and in consideration of the opinion of the Company's auditor, the Audit Commission has sufficient grounds for confirming the accuracy of the data contained in the Company's annual report and annual financial statements.

Chairman of the Audit Commission of JSC RusHydro

Augustof

S.B. Sidorov



Appendix 4. Composition of the Board of Directors of JSC RusHydro in the 2005-2006 corporate year



Appendix 4.

Composition of the Board of Directors of JSC RusHydro in the 2005-2006 corporate year

Elected by the Annual General Meeting of Shareholders of the Company on 24 December 2004 (Directive of JSC RAO UES of Russia of 24 December 2004 No. 163r "On the founding of Open Joint Stock Company Federal Hydrogeneration Company)

Chairman of the Board of Directors

Victor Khristenko

Born: 1957

Position: Minister of Industry and Energy of the Russian Federation

Anatoly Chubais

Born: 1955

Position: Chairman of the Management Board, member of the Board of Directors of ISC RAO UES of Russia

Vyacheslav Sinyugin

Born: 1969

Position: Member of the Management Board, Managing Director of Hydrogeneration Business Unit of JSC RAO UES of Russia, Chairman of the Management Board of JSC RusHydro, General Director of JSC RusHydro Management Company

Yakov Urinson

Born: 1944

Position: Deputy Chairman of the Management Board, Head of the Corporate Centre of ISC RAO UES of Russia



Appendix 4. Composition of the Board of Directors of JSC RusHydro in the 2005-2006 corporate year

Andrey Rappoport

Born: 1963

Position: Member of the Management Board of ISC RAO UES of Russia, Chairman of the Management Board, member of the Board of Directors of ISC UES FGC

Boris Ayuev

Born: 1957

Position: Member of the Management Board of ISC RAO UES of Russia, Chairman of the Management Board, member of the Board of Directors of JSC UES SO-CDA

Vasily Zubakin

Born: 1958

Position: Member of the Management Board - Deputy Chairman of the Management Board of ISC RusHydro; Senior Deputy General Director of JSC RusHydro Management Company

Dmitry Ponomarev

Born: 1967

Position: Chairman of the Management Board of NP ATS

David Herne

Born: 1971

Position: Managing Director of Halcyon Advisors

Aivaras Abromavicius

Born: 1976

Position: Partner, Manager of the East Capital Asset Management Fund, Stockholm, Sweden

Endsjo Per-Christian

Born: 1941

Position: independent consultant of Petal Consulting, Oslo, Norway



Appendix 5. Information on implementation by SDCs of the investment programme in 2006



## Appendix 5.

Information on implementation by SDCs of the investment programme in 2006

## Bureiskaya HPP

Construction of the power plant was launched in 1983. Design capacity 2,000 MW. In 2003, the first two turbogenerator units with a capacity of 185 MW each were started up. In 2004, turbogenerator unit No. 3 with a capacity of 300 MW was started up. In 2005, turbogenerator unit No. 4 with a capacity of 300 MW was started up. In 2007, commissioning of turbogenerator units Nos. 5 and 6 with an aggregate capacity of 670 MW is planned. Financing in 2006 from all sources of financing amounted to 6,799.9 million roubles (fulfilment of the ISC RusHydro Investment Programme for 2006 with respect to the Bureiskaya HPP project - 100.9%).

## Boguchanskaya HPP

Construction of the power plant was launched in 1980. Design capacity 3000 MW. Commissioning of the first stage is planned for 2009.

Financing in 2006 from all sources of financing amounted to 5,524.1 million roubles, for the BEMO project as a whole - 5,638.5 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the Boguchanskaya HPP project - 94.4%, with respect to the BEMO project, including the Boguchany Aluminium Works, as a whole - 88.1%).

#### Irganaiskaya HPP

The main task is implementation of the second stage of the start-up complex of the Irganaiskaya HPP with a Normal Water Level of the reservoir at 547.0 metres in 2007, bringing the installed capacity of the power plant up from 214 to 400 MW and increasing the average annual output to 940 million kWh, as compared to 650 million kWh. In 2006, the operating capacity of the power plant was raised by I46 MW.

Financing in 2006 from all sources of financing amounted to 2,749.8 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the Irganaiskaya HPP project - 100%).



Appendix 5. Information on implementation by SDCs of the investment programme in 2006

### Zelenchukskiye HPPs (water intake)

Two turbogenerator units with an aggregate capacity of 160 MW have already been started up. Implementation of the project for completing construction of the water intake on the River Bolshoi Zelenchuk will double the output of the hydroelectric power plant. Work on the construction of the water intake was completed in 2006. Financing in 2006 from all sources of financing amounted to 1,183.3 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the project for completing construction of the water intake of the Zelenchukskiye HPPs – 107.7%).

## Zaramagskiye HPPs

Estimated value of the construction in 1991 prices – 257 million roubles. Design capacity – 352 MW, including 2 turbogenerator units of 171 MW each of the Zaramagskaya HPP-I and I0 MW at the Main HPP. Start-up of the Main HPP is planned for 2007.

Financing in 2006 from all sources of financing amounted to 961.6 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the Zaramagskiye HPPs project – 99%).

### Sovetskaya HPP (Kashkhatau HPP)

The design capacity of the cascade amounts to 125 MW, including 60 MW at the Aushigerskaya HPP and 65 MW at the Sovetskaya HPP. The Aushigerskaya HPP was started up in 2002. Construction of the Sovetskaya HPP is planned for 2008. Financing in 2006 from all sources of financing amounted to 949.5 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the Kashkhatau HPP project – 90%). The under-fulfilment is connected with late drawing of borrowed financing.

## Sayano-Shushenskaya HPP

Completion of the construction of the Sayano-Shushenskaya HPP is based on a resolution of the Acceptance Commission to accept the electric power plant for industrial operation and order of JSC RAO UES of Russia No. 690 dated 13 December 2000.

The shore spillway of the Sayano-Shushenskaya HPP is being built to increase the reliability and operating safety of the hydroengineering facilities.

The Feasibility Study for the shore spillway was approved by order No. 158, dated 30 September 2004. It is planned to complete the work on the shore spillway of the Sayano-Shushenskaya HPP in 2010. Financing in 2006 of the completion of the construction of the Sayano-Shushenskaya HPP from all sources of financing amounted to 1,351 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the project for construction of the spillway of the Sayano-Shushenskaya HPP – 100%).



Appendix 5. Information on implementation by SDCs of the investment programme in 2006

## Malaya Mezenskaya TPP

In 2006, construction of the experimental tidal power plant Malaya Mezenskaya TPP with a nominal capacity of I.5 MW was completed.

Production of the experimental floating module block and testing of it on introduction of this new type of construction will cut the capital outlays and time required for construction of the TPP.

After successful testing of the experimental floating module block, it is planned to organise serial production of module blocks for TPPs for the purpose of broad-scale development of tidal power.

Financing in 2006 from all sources of financing amounted to 320.0 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the Malaya Mezenskaya TPP project – 97.3%).

## Small-capacity HPPs

In 2006, construction work was carried out on small-capacity HPPs of JSC Dagestanskaya Regional Generating Company (small-capacity HPPs according to the technology of Prometei and Chiryurtskaya HPP-3 (Gelbakhskaya HPP)) and JSC Stavropolskaya Electricity Generating Company (Yegorlykskaya HPP-2)). In 2006, two small-capacity HPPs of JSC Dagestanskaya RGC with an aggregate capacity of 1.8 MW were started up.

In 2006, design and survey work was purchased in accordance with the programme for development of small-capacity HPPs, including feasibility studies (projects) with respect to 12 small-capacity HPPs.

Financing in 2006 from all sources of financing amounted to 659.8 million roubles (fulfilment of the JSC RusHydro Investment Programme for 2006 with respect to the construction of the facilities of small-capacity HPPs – 91.4%).

#### Design and survey work

In 2006, design and survey work for the following projects was financed: Nizhne-Bureiskaya HPP, Nizhne-Zeiskiye HPPs, Cheboksarskaya HPP (completion of the hydropower unit), Zagorskaya PSHPP-2, Evenkiiskaya HPP (Turukhanskaya HPP), TPPs (Kolskaya TPP, Tugurskaya TPP, Mezenskaya TPP), Nizhne-Angarskiye HPPs (Motyginskaya HPP), the Cascade of Zelenchukskiye HPPs, Leningradskaya PSHPP and the Programme for development of HPPs.







## Annual Report of Open Joint Stock Company

Federal Hydrogeneration Company (JSC RusHydro)

2006

Vernadskogo prospekt, 8a, Moscow, Russia www.gidroogk.ru

