Appeal to Financial Institutions and Stock Exchange Operators by a Coalition of Non-Governmental Organisations in connection with EuroSibEnergo plans to seek investors for the construction of large-scale hydroelectric and coal-burning power stations in Russia.

In connection with EuroSibEnergo plans to seek investors (holding an IPO on the Hong Kong exchange) and statements made by EuroSibEnergo company management and En+ (the group including Rusal and EuroSibEnergo, part of "Basic Element" Holding) about the construction of new large-scale hydro and coal-burning power plants in Russia to supply energy for the domestic market and export, we consider it necessary to make the following statement.

At the end of February 2011, on the Hong Kong stock market, there should have taken place an previously delayed IPO by the EuroSibEnergo Company with the aim of attracting 1.2 billion dollars in investments. Plans for cooperation with the Chinese Yangtze Power (within the framework of the Joint Venture Yes Energy) propose the construction of power stations producing up to 10 GW of energy including at least two hydroelectric power stations and one thermal power station in Ust-Kut with a total output of 3 gigawatts. The energy produced is intended both for the internal Russian market and for export to China along high-voltage power lines via the Chita Region and Manchuria.

Russian NGOs declare with all responsibility that participation in the project proposed will involve potential investors in a large number of environmental, social, reputational and other risks. **We appeal to the stock exchange management, to banks organising public offers and to potential investors to take into consideration the risks described below and abstain from participation in EuroSibEnergo's IPO.**

1. Environmental risks

EuroSibEnergo controls 4 large hydroelectric power stations in Siberia in each of which there is a set of environmental problems. In accordance with the report "Strategy for Lake Baikal Biodiversity Conservation" prepared by the Global Environmental Facility (GEF), the Irkutsk hydroelectric power station situated on the river Angara running out of Lake Baikal causes considerable damage to Baikal's ecosystem[1]. As a result of the station's operations the natural fluctuations of water level in this unique lake are disturbed causing shore erosion and damage to spawning grounds. The situation is aggravated by the fact that, in violation of Russian law, the management of the "Basic element"holding company is lobbying for further changes in the level of Baikal[2].

Two other hydro-power stations – in Bratsk and Ust-Ilimsk – cause considerable degradation in the water quality of the river Angara as a result of decaying organic matter on the floor of the reservoir. As a result of this, the reservoir also becomes a source of greenhouse gases. Furthermore, the hydro-power dams serve as an obstacle to the exchange of biota in the basins of the rivers Angara and Yenisei and the Arctic.

The Krasnoyarsk hydro-power station, apart from other environmental problems, creates an unfrozen 400 kilometre stretch of water in winter that, in combination with toxic emissions from the Rusal Company's aluminium plant, has an impact not only on the health of the regional population but also on the entire ecosystem of the Yenisei.

The operation of the Baikalsk Pulp and Paper Mill (BPPM), belonging to the "Basic Element"(Basel) holding, is another illustration of environmental risk. The Mill is illegally discharging its

[1] See also the monograph **Hydroelectric power industry and the condition of Lake Baikal's** ecosystem/ A. A. Atutov, N. M. Pronin, A. K. Tulokhonov et al. — Novosibirsk: Publishing House of the SB SB RAS Publishers, 1999. — 280 p.

[2] Letter of O.Deripaska to the Chairman of the government 20.09.2009

wastewaters into the lake that contains 18% of the planet's freshwater reserves and is a UNESCO World Heritage Site. As a result of this, the most dangerous of toxic pollutants, lethal to life dioxins, have been found on the floor of the lake. The Basel holding refuses to close or re-profile the enterprise which led to the Credit Suisse recommendation, announced in January 2010, not to buy shares in a company that is part of the Basel group. Only on March 9th 2011 the public prosecutor's office instituted two new proceedings on administrative infractions against the BPPM in connection with discharges of pollutants into the lake and long delays with payment of fines (RIA-Novosti, 10th March).

There are no indications that the coming operations of the entire holding and the EuroSibEnergo Company will demonstrate a more balanced environmental policy.

At the same time, the environmental risks can and will take on an economic significance, as it was in the case of the Credit Suisse announcement. Amongst possible environmental risks leading to an increase in the cost of electricity production at the planned power stations, an increase in payments for environmental damage as a result of the construction and exploitation of hydro-power stations is the main one. For hydro-power stations already in existence payments are small, enabling the companies to show low energy production costs. However, as an example, on 14th February, the state body for environmental enforcement, Rosprirodnadzor ordered the Rushydro Company to pay a fine of half a billion roubles to compensate for water pollution damages caused by the accident at the Sayano-Shushenskaya hydro-power station on 17th August 2009.

Violation of existing laws, actively practiced by companies in the Basel holding, can also lead to economic losses. One can cite the example of the possible delay in launching the Boguchanskaya hydro-power station because of the fact that, when its construction was recommenced, the necessary Environmental Impact Assessment was not undertaken. The probability of such a delay is very high, as this violation has been confirmed by the state body for technical supervision, Rostekhnadzor. In Russia well-known example of the consequences of violations of environmental standards is the delay in development of the Sakhalin-2 project because of legal proceedings with subsequent redistribution of property of the Shell Company in favour of Russian state companies[3].

The cancellation of plans for construction of new hydro-power stations in Russia, for environmental reasons amongst others, witnesses to the direct relationship between environmental and investment risks. In 2010, after a two-year public campaign, the government dropped from official plans construction of one of the world's largest hydro-power stations – the Evenkiiskaya hydro-power station. Over the period 1992 – 2005 construction of more than 30 hydro-power stations in Siberia was frozen. To the list of projects with obvious absence of development prospects, belongs the old plan to develop hydro-power plants on the main channel of the Amur River: without doubt environmental considerations dominate amongst the grounds for rejection of these construction projects.

The absence of named sites and rivers for the planned construction of hydro-power stations announced by EvroSibEnergo and the Joint Venture YES Energy should serve as an important signal for potential investors from the point of view of environmental and social risks.

2. Risks connected with the structure and main (aluminium) production of the holding Basel.

The company EuroSibEnergo is a 100% daughter company of the company En+, which in turn is part of the Basel holding. Basel's main business is aluminium production (Rusal Company). Accordingly, the main goal of EuroSibEnergo is to obtain electricity for Rusal's aluminium production.

The main criterion of success for any aluminium business is cheap energy; and Rusal is having problems getting this. This has become particularly clear over the past two years in connection with the Sayano-Shushenskaya hydro-power plant accident. As a result, Rusal's whole policy has been aimed at lowering expenditure on prime energy at all costs. One of the results of such a policy has been the

[3] http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aFF1FYXdrOqo&refer=uk

reaction of the Federal Antimonopoly Agency that, in February 2011, demanded that Rusal be fined for manipulating prices on the wholesale market for electricity[4]. It is for this reason that the goal of the new hydro-power construction projects will be to lower energy costs, that will exclude the possibility of gaining large profits from its sale and also the solution of accompanying social and environmental problems related to the EuroSibEnergo and Joint Venture YES Energy hydro and coal power stations planned. According to information available in the media, the ideal price that the aluminium division of the Basel holding is prepared to pay for electricity is one cent per kilowatt hour[5]. This is three times lower than the price on the Russian wholesale electricity market.

Additional risks connected with the "aluminium burden" depend on the unevenness of deployment of aluminium production. Rusal obtains part of its bauxite from abroad, e.g. from Guinea, and this leads to further political risks. Since the recent coup d'état in Guinea, the new government has begun to revise the cost of transactions concerning bauxite sales to Rusal[6].

From the technological point of view, the efficiency of the new hydro- and coal power stations will depend on the whole chain of aluminium production. Efficiency will be affected not only by accidents at the operational stage, as in the Sayano-Shushenskaya case, but also on aluminium production, as it was at Rusal's Nikolaevsk aluminous plant in the Ukraine in February this year. Here, as a consequence of red sludge being blown in the air, part of the toxic dust ended up outside the storage house. Losses because of the accident have not yet been announced.[7]

3. Reputational risks

The proposed international cooperation on development of Siberia and the Russian Far East by way of implementation of dangerous projects involving the virtual destruction of unique ecosystems, resettlement of large numbers of local inhabitants from flood zones and deterioration in the quality of the environment fails to go along with the spirit of sustainable development in the 21st century and carries with it risks for all participants in the process. The damage to Lake Baikal brought about by the operations of EuroSibEnergy will immediately cast doubt on the reputations of its investors.

According to our appraisal, it was to avoid reputational risk that the European Bank of Reconstruction and Development excluded participation of the En+ project for construction of the Boguchanskaya hydro-power station from its Strategy in the Russian Federation. This refusal came after NGOs had informed the bank about massive violations of Russian environmental law during project implementation, which have been officially recognised by Rostekhnadzor, and about the use of prisoners' labour in the station's construction.

Apart from environmental and social reasons, reputational risks are also connected with a series of international court action against O.V.Deripaska – owner of the Basel holding that includes En+ and EuroSibEnergo. The refusal by US authorities to grant O.V.Deripaska a visa speaks of the level of such risks.

4. Social Risks

Social risks relate first and foremost to the rise in resentment, on the part of the people of Siberia and the Russian Far East, at plans to flood new lands and resettle large numbers of local people. This discontent was made particularly clear in connection with construction of the Boguchanskaya hydro-plant by the En+ Company. At the beginning of project development in the 1970s 13 thousand people were subjected to resettlement, over 5000 being resettled after 2007 with numerous

[4] http://en.fas.gov.ru/news/news_31241.html
[5] http://www.rospres.com/finance/5734/
[6] http://en.rian.ru/business/20100127/157692552.html
[7] http://johnhelmer.net/?p=4928

infringements of human rights[8]. The use of prisoners' labour to clear the forest in the reservoir bottom also presents a problem.

The attitude of Basel holding management towards its staff also illustrates its social policy. Workforce protests occur regularly in the company. The best known was the protest of workers in the town of Pikalovo in 2008-2009, where the holding has an aluminous plant. A federal highway was blocked during the protests (a form of protest in Russia that shows that the level of popular discontent had reached its peak). Prime Minister Putin was obliged to intervene personally in response to these protest actions.

The company's disregard of proposals on the part of NGOs to enter a dialogue is yet another indicator of its social policy. For instance, in 2010, the Baikalsk Pulp & Paper Mill and Irkutskenergo refused to meet an NGO delegation from China. Furthermore, BPPM management uses its workers for confrontation with citizens' grassroots organisations[9]. In Guinea confrontation between the local population and the company Rusal led to deaths[10].

5. Risks connected with low-quality management and irrational system of decision-making within the Basel holding.

The most vivid example of such decisions is the re-launching of the previously shut-down, technically out-dated and dangerous equipment of the Baikalsk Pulp and Paper Mill. The Mill produces at a loss; improvement of production with the transition to a closed-loop water cycle makes it absolutely uncompetitive. The Basel Company rejected plans to re-profile the Mill. Despite the storm caused by the fact of the Mill's re-opening, the company demonstratively refuses to pay for its negative impact on the environment. Debts for 2010 alone amount to 26.7 million roubles (about one million US dollars). As a result, the public prosecutor's office for nature conservation has raised two law suits on administrative infringements against the Baikalsk PPM, 9th March 2011.

The serious examination on the part of Rusal of a project for nuclear power generation to obtain 'cheap energy' is indicative, once again, of company policy. It is not possible that the company is unaware of the fact that the cost of energy from nuclear power plants is one of the highest and is entirely dependent on state subsidies.

The fact that EuroSibEnergy made the decision to open an IPO without a clearly declared business strategy that takes into account risks outlined in this document speaks of the low quality of decision preparation in the holding and of its risky character.

6. Technological Risks

High technological risk is characteristic of hydropower right from the start because of the management of large volumes of water. The events at the Sayano-Shushenskaya hydro-plant in 2009 give an example of an accident of the type that inevitably threatened both the Mainskaya and the Krasnoyarskaya hydro-power stations situated downstream. At the Krasnoyarskaya station, as a result of the unforeseen discharge of excessive volumes of water, a gully formed below the dam. In years of abundant water, the management of Irkutsk hydro-power plant has on a number of occasions been faced with the choice of flooding settlements in the Republic of Buryatia along the Lake Baikal or inundation of structures in the flood plain of the river Angara in the town of Irkutsk. When hydro-power stations are constructed on permafrost, risks arise relating to the dam's stability, as has already occurred at the Kuryeiskaya and Viluyskaya hydro-stations.

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[8] Report of the Commissioner for Human Rights in Krasnoyarskii Krai, Mark Denisov, at a sitting of Krasnoyarsk Krai Legislature http://www.plotina.net/boges-denisov-2009/

[9] http://baikalwave.blogspot.com/2010/03/environmental-protest-takes-place-in.html

[10] http://www.reuters.com/article/2008/11/01/guinea-bauxite-protest-idUSL1186479200811101

There is a high risk of accidents at the Basel holding's non-core facility – the Baikalsk Pulp and Paper Mill, - where, as a result of exploitation of old equipment there has already been a series of accidents over 2010-2011[11].

Amongst other technological risks, there is the possibility of getting "locked in" sources of power because of a lack of power lines or unprofitability of electricity transport. Judging by the plans announced, one can assume that the energy-bridge from Russia to China could extend a few thousand kilometres (the distance from Ust-Kut, where one of the stations is planned, to the Chinese boarder is roughly 1200 km.). This will, without doubt, increase the cost of energy even with high-voltage direct current technology. According to the Bank of China's estimate the technical possibilities of electricity export from the Angara-Yenisei basin is not to be expected in the near future[12].

7. Internal political risks

Besides traditional risks connected with the corruption of state bodies in Russia, activities of the Basel holding are attended with a number of other domestic political risks. Basel is in a permanent state of conflict with another large hydro-power company – RusHydro. The holding is responsible for the social welfare of a number of towns where public protests are possible, which in turn has an impact on relations between the holding and the federal authorities. As a result of the 2008 crisis and accident at the Sayano-Shushenskaya station, the company has begun to actively seek state subsidies. Thus, its condition does not depend so much on economic factors, as on the management's personal relations with federal officials.

With the aim of restraining electricity prices in 2011, the Russian government has already taken a number of steps. One of these could be its rejection of tariff preferences in favour of Rusal that the company is insisting on. This will influence the economic indices of the whole chain of aluminium production, including the performance of the inhouse generation of the holding represented by the company EuroSibEnergo.

All the factors enumerated above lead to a high risk of investment loss. Repeated postponement of the EuroSibEnergo's IPO (in 2010 and 2011) shows that a large part of the potential investors, it would appear, are experiencing similar doubts about the sustainability of this business. The constant search for subsidies indicates that the economic state of the company is not sustainable. Production itself is burdened with risks connected with constant violations of environmental law, low social standards and inefficient business decision-making.

In view of the above, we call on you:

The stock exchange management organising the execution of IPO and trade in the shares of EuroSibEnergo and other Basel companies to make this information available to participants in exchange trading. Stock exchange management should promote the holding of IPO of the most responsible candidates and prevent risks involved in dealings with questionable candidates even to refusal to hold an IPO.

Bank-organisers of investment placement and potential investors in projects of EuroSibEnergo and all companies associated with the holding "Basic Element Ltd.," to take into consideration the information put forward for your attention and not to participate in financing the construction of large hydro-electric power stations and aluminium production linked to it in Russia. To give attention to the possibilities of investment in modernization of existing power stations, energy efficiency and renewable energy projects on the basis of the energy of the sun, wind, biomass and tides.

[11] http://www.vsp.ru/ecology/2011/02/22/508868

[12] South China Morning Post *Feb 28, 2011*

Chinese state companies – not to undermine the possibility of development of sustainable Russo-Chinese cooperation in the power sector by investing in questionable alliances, as in the case of EuroSibEnergo. To reject investments in large-scale hydro-electric power stations in Siberia and the Russian Far East, to enter into dialogue with citizens' organisations on questions concerning the environmental and social risks of investments in Russia.

EuroSibEnergo and Yangtze Power – to make known information on proposed sites for the construction of hydro-power stations "with a total output of up to 10 GW" and the economic, environmental and social risks connected with these sites, to carry out a strategic environmental impact assessment of plans for hydro-power plant construction and provide for the participation in it of all stakeholder groups.

EuroSibEnergo and other subdivisions of the Basel holding, - to take on itself the commitment to reduce the negative impact of existing hydro-electric power stations on Lake Baikal and basins of the rivers Angara and Yenisei, to publically abandon plans to raise the amplitude of water-level fluctuations on Baikal, insist on the conduction of an environmental impact assessment of the Boguchansk complex, make cardinal corrections to the environmental and social policies of the holding's companies in favour of recognition of responsibility for environmental damage and openness for constructive dialogue with public stakeholders.

This appeal is timed to coincide with the International Day of Action in Defence of Rivers[13]. Rivers are the greatest of riches of Siberia and the Russian Far East; their basins are a key habitat for indigenous peoples and zones of traditional land use. The creation of giant hydro-electric power stations has brought about acute social and environmental problems in the basins of the largest rivers of Asia – the Yenisei, Amur, Lena, Ob and Yangtze. We consider it improper to present the construction of large hydro-power stations as "sources of green energy" and call upon the business community to assist in the adoption of truly alternative and environmentally safe forms of energy production: solar, wind and tidal.

Greenpeace Russia
WWF Russia
International Socio-ecological Union
Biodiversity Conservation Center
Russian Bird Conservation Union
Coalition "Rivers without Boundaries"

[13] http://www.rivernet.org/general/movement/14mars.htm