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“APPROVED”

by resolution of the Board of Directors
of JSC FGC UES

(minutes No. _____ dated “____” _____ 2008)

Chairman of the Board of Directors of

JSC FGC UES _____ V.B. Khristenko

**CODE of
CORPORATE GOVERNANCE
OF THE JOINT STOCK COMPANY
FEDERAL GRID COMPANY OF THE UNIFIED
ENERGY SYSTEM**

(JSC FGC UES)

**Moscow
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1. INTRODUCTION

The purpose of this Code is in perfection and systematization of corporate governance of the Joint Stock Company “Federal Grid Company of the Unified Energy System” (hereinafter the Company or JSC FGC UES), ensuring better transparency in the Company’s management and confirmation of the Company’s commitment to follow the standards of due corporate governance. In particular:

- Corporate governance shall ensure due level of responsibility and accountability in order to maximize the shareholder’s value;
- The Board of Directors and executive bodies must work efficiently in the best interests of the Company and its shareholders (including minority) and create conditions for sustainable growth of the shareholder’s value;
- The management shall ensure due disclosure of information, transparency and efficient functioning of risk management and internal control systems.

Adopting, regularly perfecting and strictly adhering to this Code, the Charter of the Company and other internal documents, the Company thus reconfirms its commitment to develop and perfect the practice of due corporate governance.

For the purpose of further consolidation of confidence and trust from the part of shareholders, employees, investors and community, when stipulating this Code, the Company has not confined itself only to the norms of Russian legislation but complemented the Code with additional provisions based on generally recognized Russian and international standards of corporate governance.

The Company herewith assumes obligations contemplated by this Code and undertakes to observe its norms and principles.

2. INFORMATION ON THE COMPANY

The Company was established in accordance with the program of reforms in electrical energy industry of Russian Federation.

State Registration of the Company was on the 25th of June 2002.

In accordance with Resolution of the Government of Russian Federation No. 526 “On Reforms in Electrical Energy Industry of Russian Federation” dated 11.07.2001, Unified Energy System of Russia was acknowledged as “nationwide patrimony and guarantee of energy preparedness” of the State. Its major asset “is unified national power network, which includes the transmission system connecting greater part of the regions, and representing one of the elements of guaranteed integrity of the country”. For the purpose of its “maintenance and strengthening, ensuring solidity of engineering management and implementation of the state policy in power industry” the Government contemplated establishment of JSC FGC UES.

Organizational structure of the Company consists of executive body and branches listed in the Charter of the Company.

The Company’s role in economy of Russian Federation is of exceptional significance. Activities and operations of the Company and its subsidiaries and affiliated entities support vital activities of population and development of all industries of Russian Federation.

The Company’s business is linked to accountability to shareholders, the State, employees of the Company and other third parties.

Assuming such liability and acknowledging the importance of high-profile corporate governance for successful business of the Company and for achievement of mutual understanding among all interested parties, the Company herewith commits to follow the principles hereof and exert every reasonable effort for their observance in day-to-day operations.

3. PRINCIPLES AND STRUCTURE OF THE COMPANY'S CORPORATE GOVERNANCE

3.1. Definitions and Principles

The Company defines corporate governance as a package of processes, which ensure management and control over its activities including relations between shareholders, the Board of Directors and executive bodies of the Company in the interests of shareholders. The Company considers corporate governance as a vehicle for raising efficiency of the Company's business, strengthening its reputation and reducing costs related to capital mobilization.

The present Code, which regulates corporate governance in the Company, is based on Russian legislation, Code of Corporate Conduct recommended by FCCB of Russia in its Resolution No. 421/p dated 04.04.2002 (hereinafter the FCCB Code) and internationally acknowledged principles of corporate governance, such as Principles of Corporate Governance of OECD (Organization for Economic Cooperation and Development).

Corporate governance in the Company is based on the following principles:

- **Accountability.** The Code envisages accountability of the Board of Directors of the Company to all shareholders in accordance with applicable legislation and serves as guidance for the Company's Board of Directors during elaboration of strategy, exercising management and control over activities of executive bodies of the Company.
- **Fairness.** The Company undertakes to defend the rights of its shareholders and ensure equal treatment to all its shareholders. The Board of Directors of the Company grants adequate remedies to all shareholders in case of their rights infringement.
- **Transparency.** The Company ensures timely disclosure of reliable information about all material facts related to its activities, including its financial standing, social and environmental performance, business results, ownership structure and the Company's management, and guarantees free access to such information for all interested parties.
- **Liability.** Company acknowledges the rights of all interested parties granted by applicable legislation and looks toward cooperation with such parties for the purpose of its own development and financial stability.

3.2. Internal Documents

The Code represents an abridgement of principles. Structure, procedures and practice of corporate governance are regulated by the Charter and internal documents of the Company, including:

- Regulation on preparation and holding of General Meeting of Shareholders JSC FGC UES;
- Standing order on activities of the Board of Directors of JSC FGC UES;
- Regulation on the Executive Board of JSC FGC UES;
- Regulation on Internal Audit Commission of JSC FGC UES;
- Regulation on the Audit Committee of the Board of Directors of JSC FGC UES;
- Regulation on HR and Incentives Committee of the Board of Directors of JSC FGC UES;
- Regulation on IT Policy of JSC FGC UES;
- Regulation on insider information of JSC FGC UES;
- Regulation on internal control system of JSC FGC UES; and
- Other internal documents of the Company.

The above internal documents of the Company were developed in accordance with applicable legislation of Russian Federation. All these documents are available at the Company's Internet site: <http://www.fsk-ees.ru/>.

3.3. General Structure of Corporate Governance

The Company's system of management bodies includes:

- General Meeting of Shareholders – the supreme management body of the Company, through which the shareholders satisfy their rights for participation in the Company's governance;
- Board of Directors – management body responsible for development of the Company's strategy, general management of its activities and control over performance of its executive bodies. The Board of Directors of the Company may also establish its own committees.
- Committees of the Board of Directors – consultative-advisory bodies of the Board of Directors of the Company, which are established for preliminary review of the most important issues relegated to the competence of the Board of Directors.
- Executive Board and the Chairman of the Executive Board – executive bodies of the Company in charge of management of current activities of the Company and implementation of strategy elaborated by the Board of Directors and shareholders of the Company;

- Internal Audit Commission – body in charge of control over financial and business activities of the Company, which reports directly to the General Meeting of Shareholders of the Company.

4. THE COMPANY’S PRACTICE OF CORPORATE GOVERNANCE

General Meeting of Shareholders is the supreme management body of the Company. Participation in the General Meeting of Shareholders allows the shareholders to satisfy their rights for participation in the Company’s management.

The Company perceives the Board of Directors as important element of efficient corporate governance. The Board of Directors influences the results of the Company business by way of general strategic management and control over performance of executive bodies in the interests of the Company and its shareholders.

Executive bodies of the Company, which are responsible for day-to-day management of current activities of the Company, play an important role in the management process.

For the purpose of control over financial and business activities of the Company the policy foresees establishment of special authority - Internal Audit Commission, as well as appointment of independent audit organization (Auditor).

Efficient interaction between these bodies and well-defined delineation of their responsibilities is one of the key factors that ensure pertinent practice of corporate governance.

4.1. Board of Directors

4.1.1. Election, Term of Office and Dismissal of Members of the Board of Directors

Members of the Board of Directors of the Company shall be elected for the term up to the next Annual Meeting of Shareholders. The Board of Directors of the Company shall be elected by cumulative vote.

The Company does not believe that any restriction on the number of reelections of members of the Board of Directors will correspond to the interests of the Company or its shareholders. The members of the Board being well familiar with activities of the Company will further promote due corporate governance.

The authorities of the Board of Directors are set forth in the Charter of the Company in accordance with applicable legislation of Russian Federation.

Quantitative composition of the Board of Directors of the Company is defined in the Charter of the Company.

General Meeting of Shareholders of the Company may terminate the authorities of the Board of Directors taken as a whole only.

4.1.2. Independence

In accordance with internal documents of the Company any person performing the functions of the sole executive body shall not be allowed to act simultaneously as Chairman of the Board of Directors of the Company.

The Company aspires that the position of the Chairman of the Board of Directors shall be granted to an officer of impeccable reputation, a professional in the sphere of the Company's business having considerable experience of performing managerial functions, with no doubts about his/her good faith, fidelity to principles or commitment to the interests of the Company, and a person that enjoys confidence and trust of shareholders and members of the Board of Directors of the Company.

The Board of Directors is in charge of control over activities of executive bodies of the Company; it defines the strategy and main directions of the Company's development.

Members of the Executive Board shall not be allowed to represent more than 25% out of composition of the Board of Directors of the Company.

In order to ensure neutrality of resolutions and decisions and maintain the balance of interests between various groups of shareholders, the Company is striving to have at least 3 (Three) independent directors acting as members of the Board of Directors.

The Company believes that independent directors shall meet the following criteria:

- They are not on the moment of election, and within 3 years preceding to their elections they were not officers or employees of the Company;
- They are not executive officers of other legal entity, in which any officer of the Company is a member of HR and incentives committee of the board of directors;
- They are not spouses, parents, children, brothers or sisters of the Company's executive officers;
- They are not affiliates of the Company, excluding any member of the Board of Directors of the Company;
- They are not counterparties under obligations with any issuer, in accordance with the terms of which they may acquire any property (cash funds) with the value of 10 or more percent out of aggregated annual income of such

persons, excluding remuneration for participation in the activities of the Board of Directors of the Company;

- They are not representatives of the State and/or local authorities, i.e. persons who are obliged to vote as per written instructions (directives etc.) of authorized representatives from Federal Government, governmental authorities of political subdivisions of Russian Federation or local government authorities.

4.1.3. Committees of the Board of Directors

For the purpose of better efficiency and quality of activities of the Board of Directors, the Company shall establish the following committees: Committee on Reliability, Committee on Audit; HR and Incentives Committee.

The Company may establish any other committees of the Board of Directors based on resolution of the Board of Directors.

Activities of all committees shall be governed by internal regulatory documents of the Company, which specify composition, competences, working procedures of such committees, as well as the rights and obligations of their members.

Committees of the Board of Directors shall be established for preliminary review of the most important issues relegated to the competence of the Board of Directors.

4.1.4. Working Procedures

The Board of Directors of the Company shall hold its meetings in accordance with approved action plan and schedule of meetings of the Board of Directors, or as frequently as it may be required (extraordinary meetings), but at least once per quarter, which shall ensure adequate performance thereof.

Any meeting of the Board of Directors may be carried out in form of joint presence or absent voting.

The form of the meeting of the Board of Directors shall be defined with due consideration of importance of issues put in the agenda.

The Company aspires that resolutions on approval of priority directions as well as financial and business plans of the Company, convocation of Annual General Meeting of Shareholders, preliminary approval of Annual Report of the Company, convocation or renunciation of Extraordinary General Meetings of Shareholders, election and reelection of the Chairman of the Board of Directors, establishment of executive bodies of the Company and early termination of their authorities, introduction of proposals for the General Meeting of Shareholders related to

reorganization or liquidation of the Company shall be adopted at the meetings of the Board of Directors held as joint presence only.

The Company shall do its utmost so that the members of the Board of Directors obtain all and any information required for due performance of their functions.

Working procedures of the Board of Directors shall be regulated by the Standing order of the Board of Directors of JSC FGC UES. The Secretary of the Board of Directors shall ensure timely delivery of notices on the meeting to all members of the Board of Directors, including materials on issues put in the agenda of the meeting of the Board of Directors no later than in 11 (eleven) working days before each meeting, excluding cases when such notice period is shortened due to requirements of applicable legislation of Russian Federation

The Secretary of the Board of Directors shall keep minutes of the meetings of the Board of Directors. The Minutes shall be signed by the Chairman of the Board of Directors and the Secretary of the Board of Directors.

4.1.5. Remuneration

Remuneration to the members of the Board of Directors shall be in line with market tendencies and shall be defined in order to attract and retain with the Company the most qualified and experienced professionals, and to motivate their good faith and efficient work.

The Company shall publicly disclose information on remunerations payable to the members of the Board of Directors.

The Company shall not be allowed to grant loans to the members of the Board of Directors, excluding cases when any member of the Board of Directors is simultaneously the sole executive body or is in composition of collegial executive body.

4.1.6. Responsibilities of Members of the Board of Directors

When performing their function or satisfying their rights, the members of the Board of Directors shall act in the best interests of the Company prudently and in good faith. Each member of the Board of Directors shall do his/her best in order to participate in every meeting of the Board of Directors.

Members of the Board of Directors shall apprehend their liability to shareholders and shall perform their corporate governance functions in good faith ensuring sustainability and growth of the Company's shares value, as well as protection and satisfaction of the shareholders' rights.

Members of the Board of Directors shall ensure perfection and implementation of the Company's development strategy.

The Board of Directors shall establish and support necessary mechanisms of control over activities of the Chairman of the Executive Board and the Executive Board of the Company, including monitoring and evaluation of results of their work.

The Board of Directors shall establish a system of well-defined and transparent criteria and procedures for appointment and substitution of members of the Executive Board of the Company and an efficient system of remuneration to its members.

Members of the Board of Directors shall not disclose or use any confidential information on the Company for personal interests.

Members of the Board of Directors of the Company shall be obliged to disclose information on their equities in the Company, as well as on their sales (alienation) and (or) acquisition in accordance with requirements of applicable legislation of Russian Federation.

Members of the Board of Directors shall abstain from any action, which may lead to a conflict of interests between them and the Company. In case of such conflict any member of the Board of Directors shall notify other members of the Board on the same, and shall abstain from voting for relevant issues.

The Company at its own expense shall insure and indemnify all members of the Board of Directors against all and any damages to the Company or to third parties due to actions of such members of the Board of Directors, and all such damages shall be covered at the expense of the insurance company.

4.2. Executive Bodies

The Company recognizes that for successful management of the Company's activities it needs a sole executive body in person of the Chairman of the Executive Board. The Company also admits that in the course of management process it will have to solve complex problems and that their resolution requires joint rather than individual approach. Therefore, the Company shall form the Executive Board headed by the Chairman of the Executive Board.

4.2.1 Responsibilities. The Chairman of the Executive Board and the Executive Board shall be in charge of managing current activities of the Company for the purpose of accomplishing goals and implementation of the Company's Strategy.

4.2.2. Election, Term of Office and Dismissal of the Chairman of the Executive Board and the Executive Board. The Chairman of the Executive Board shall be elected by General Meeting of Shareholders of the Company. The Chairman of the Executive Board, in his/her turn, shall propose candidacies to the members of the Executive Board to the Board of Directors for approval.

General Meeting of Shareholders may terminate the authorities of the Chairman of the Executive Board at any time. The Board of Directors may at any time terminate the authorities of any member of the Executive Board.

4.2.3. Quantitative Composition. The Chairman of the Executive Board shall make recommendations on the quantitative composition of the Executive Board, which shall be defined by the Board of Directors of the Company.

4.2.4. Composition of the Executive Board. Composition of the Executive Board, which shall be staffed with competent and experienced professionals, shall ensure efficient management of current activities of the Company. Each member of the Executive Board, including the Chairman of the Executive Board, shall have sufficient knowledge, experience and qualification required for due performance of their functions.

4.2.5. Working Procedures of the Executive Board. The Executive Board shall regularly hold its meetings; all members of the Executive Board shall be timely furnished with information on issues put in the agenda of the meetings. Working procedures of the Executive Board shall be regulated by the Regulation on the Executive Board of the Company.

4.2.6. Remuneration and Performance Evaluation. The system of remuneration to the Chairman of the Executive Board and members of the Executive Board shall be defined by the Board of Directors. Remuneration shall consist of constant and variable parts, where the variable one shall depend on performance indicators achieved (hereinafter the “Indicators”) by executive bodies and shall be linked to their personal contribution to long-term development of the Company in the interests of its shareholders.

Performance Indicators shall mean a system of financial and non-financial indicators, which influence quantitative or qualitative change of the results with reference to the Company’s strategic goals.

When defining performance indicators for executive bodies, the Board of Directors of the Company shall be concentrating on the most significant issues, cutting off all minor ones and curtailing their scope exactly to “key” issues. The number of Indicators shall be limited (in order to ensure their actuality, feasibility and efficient monitoring).

The objective of Indicators is in translation of the Company's Strategy into integrated set of indicators of its performance, which shall define major parameters of measurement and management system. The set of performance indicators shall serve the basis for elaboration of the Company's Strategy and shall include quantitative characteristics for informing executive bodies on key success factors at present and in future. When formulating its strategy the Company shall set the goals and define conditions for its accomplishment.

4.2.7. Responsibilities of Executive Bodies. The Chairman of the Executive Board and members of the Executive Board shall act in good faith and with due diligence in the interests of the Company and its shareholders.

The Chairman of the Executive Board and members of the Executive Board shall abstain from actions, which may lead to a conflict of interests between them and the Company. In case of such conflict the Chairman of the Executive Board and members of the Executive Board shall report this to the Board of Directors, and shall abstain from discussion of and voting for relevant issues.

The Chairman of the Executive Board and members of the Executive Board of the Company shall be obliged to disclose information on their equities in the Company, as well as on their sales (alienation) and (or) acquisition in accordance with requirements of applicable legislation of Russian Federation.

The Company recognizes that experience, personal contacts, knowledge and qualification of members of the Executive Board, including those acquired during their work for the Company, open the way for carrying out of private commercial activities (both personal and joint ones – by way of holding shares, equities or participation interests), which may not relate to the interests of the Company.

However, the members of the Executive Board shall guarantee that such activities:

- Will not interdict or otherwise prevent such member from due performance of his/her duties as member of the Executive Board of the Company;
- Will not be connected with the use of material or intellectual resources of the Company;
- Will not result in any material damage to the Company;
- Will not embarrass good will or business reputation of the Company; and
- Will not create competition with the Company.

In case of infeasibility or occurrence of prerequisites for non-observance of at least any of the above covenants, such member of the Executive Board shall be obliged to terminate any activities that lead to such non-observance.

In order to prevent any possible negative consequences for the Company, all members of the Executive Board shall disclose to the Company all and any information on their personal commercial activities not related to the interests of

the Company in accordance with procedures set forth in internal regulatory documents of the Company.

The Company at its own expense shall insure and indemnify all members of the Executive Board against all and any damages to the Company or to third parties due to actions of such members of the Executive Board, and all such damages shall be covered at the expense of the insurance company.

4.3. Interaction of the Board of Directors and Executive Bodies

Efficient corporate governance requires straightforward dialogue between the Board of Directors and executive bodies of the Company. For this purpose the Executive Board of the Company shall furnish to the Board of Directors quarterly reports on the activities of the Executive Board.

5. SHAREHOLDERS OF THE COMPANY

5.1. Rights and Remedies of Shareholders

Shareholders of the Company are allotted with a package of rights in relation to the Company, the observance and protection of which shall be ensured by the Board of Directors and the Executive Board of the Company.

Register of shareholders of the Company shall be kept and timely updated by an independent registrar. The choice and appointment of independent registrar with spotless reputation and possessing all necessary technical facilities, allows the Company to ensure reliable and efficient registration and accounting of ownership rights for the shares and other securities of the Company.

Shareholders shall have the right for regular and timely receipt of information on the Company's business within the scope and in accordance with requirements of applicable legislation of Russian Federation.

For the purpose of due observance and protection of the above rights the Company hereby guarantees fulfillment of legislative requirements pertaining to disclosure of information.

The Company shall prepare and furnish quarterly financial reports in accordance with requirements of applicable legislation of Russian Federation.

All and any information so disclosed shall be obligatorily placed and made available at the Company's Internet site.

Shareholders possessing voting shares shall have the right to participate in the General Meeting of Shareholders and to vote for any issue in their competence.

For the purpose of due observance and protection of the above rights, the Company shall organize and conduct the General Meeting of Shareholders in a manner that the shareholders' participation will not be time consuming lead to excessive material costs, and shall ensure equal treatment to all shareholders.

The Company shall be obliged to provide the shareholders with information on issues put in the agenda of the General Meeting of Shareholders to an extent and in time that allow shareholder's adopting justified decisions.

In cases foreseen by applicable legislation and the Charter of the Company, the Board of Directors shall make impartial and justified recommendations to shareholders.

All and any information related to the General Meeting of Shareholders shall be obligatorily placed and made available at the Company's Internet site.

Shareholders shall be entitled to a portion of net profits of the Company payable as dividends.

For the purpose of due observance and protection of the above rights the Company shall be obliged to pay declared dividends in time specified by General Meeting of Shareholders.

The rights of shareholders are regulated by the Charter and internal documents of the Company.

5.2. General Meeting of Shareholders

The Company has adopted Regulation on General Meeting of Shareholders, which contains detailed description of its preparation, carrying out and decision making processes.

5.2.1. Preparation for the Meeting. Each shareholder shall have the right to participate in the General Meeting of Shareholders, to vote on issues of its agenda, to be timely notified on such meeting and its agenda, and to obtain reliable, impartial, sufficient and updated information for adopting sound decisions on issues of the agenda. Executive bodies of the Company shall be responsible for the support of this process.

The Company has established fair and efficient procedure of introduction of proposals to the agenda of the General Meeting, including proposals related to candidacies to the members of the Board of Directors. Agenda of the General Meeting may not be changed after its approval by the Board of Directors.

5.2.2. Conduct of Meetings. The Company shall take all necessary steps for ensuring participation of shareholders in the General Meeting and their voting on issues of the agenda.

The venue of the General Meeting shall be accessible for all shareholders. The procedure of registration shall be convenient for participants and shall ensure easy and unrestricted access to the place of the meeting.

Where possible, the Company shall ensure that General Meeting of Shareholders is attended by members of the Board of Directors, executive bodies, Internal Audit Commission and Auditor of the Company and shall authorize the latter to answer the questions of shareholders. Shareholders shall have the right to comment on issues of the agenda, introduce relevant proposals and ask question. The Chairman of the General Meeting of Shareholders shall ensure its efficient work.

The procedure of counting votes at the General Meeting shall prevent manipulation with the results of voting.

5.2.3. The Results of the Meeting. The results of votes and other related materials shall be made available to shareholders on the date of General Meeting or right after its closing, and shall be timely published at the Company's internet site and in mass media.

5.3. Dividend Policy

The Company acknowledges the importance of shareholders' receiving dividends as a form of revenues from their investments to shares acquisition.

The Company has adopted an officially approved Regulation on the Company's Policy on Dividends.

The Company shall inform its shareholders and other interested persons about its Dividend Policy and any changes thereto by way of publishing relevant information at the Company's internet site.

The Company's Policy on Dividends envisages:

- Creation of transparent and clear mechanism for defining the value of dividends;
- Ensuring the most convenient procedure of dividends' payment to shareholders;
- Measures aimed at preventing incomplete or delayed payment of declared dividends.

6. DISCLOSURE OF INFORMATION AND TRANSPARENCY

6.1. Policy and Practice of Information Disclosure

The Company's Policy of Information Disclosure is specifically aimed at ensuring the highest level of trust from the part of shareholders, potential investors, contractors and other interested persons to the Company by way of providing such entities with information on the Company, its activities and securities to an extent sufficient for adopting justified and well thought decisions in relation to the Company and its securities.

When disclosing information the Company goes beyond information, which is subject to disclosure under applicable legislation of Russian Federation and publicizes additional data, which ensures high level transparency of the Company and contributes to accomplishing the Company's Policy of Information Disclosure.

The list of information to be regularly disclosed by the Company, the procedure and lead-times of information disclosure are defined the Company Regulation on IT Policy of JSC FGC UES approved by the Board of Directors.

When disclosing information the Company follows the below principles:

- Principle of completeness and reliability of disclosed information, in accordance with which the Company shall provide all interested parties with information that corresponds to reality, without concealing negative facts and to an extent that allows forming the most realistic image of the Company and the results of its activities;
- Principle of accessibility of information, in accordance with which the Company takes advantage of those media that ensure free and easy access for its shareholders, creditors, potential investors and other interested persons;
- Principle of information equilibrium, which means that information policy of the Company is based on a prudent balance of the Company's transparency for all interested parties on one hand, and confidentiality of certain data on the other hand, for the purpose of maximum satisfaction of the shareholders' rights to awareness on the Company's business, provided that all confidential or insider information is duly protected and controlled;
- Principle of regularity and timeliness of information disclosure, which envisages that the Company shall furnish to its shareholders, creditors, potential investors and other interested persons the required information on its activities in time foreseen by applicable legislation of Russian Federation and internal documents of the Company.

All information disclosed by the Company shall be published at the Company's Internet site. The site of the Company has its page in English language. The Company herewith undertakes to ensure that the members of the Board of Directors, executive bodies of the Company, as well as other employees of the Company observe the norms of applicable legislation of Russian Federation and special requirements set forth in internal documents of the Company in order to

avoid conflict of interests and prevent corrupt practices such as use of insider information by employees and officers of the Company.

Executive bodies of the Company shall be liable for disclosure of information. Members of the Board of Directors shall disclose to the Company all and any information on their activities, which is necessary for the Company's disclosing information in accordance with applicable legislation of Russian Federation and Regulation on IT Policy of the Company.

6.2. Financial Reports

The Company shall keep accounting records and prepare financial reports in accordance with Russian standards of accounting and financial reporting. The Company shall also prepare summarized (consolidated) reports in compliance with International Accounting Standards (IAS) and publish such reports at the Company's Internet site.

Financial reports shall be supplemented with detailed explanatory notes, which allow the recipient interpreting the data on financial results of the Company's activities in the right way. Financial information shall be complemented with comments and analytical estimates of the Company's management, supported by the professional opinion of the Auditor of the Company and its Internal Audit Commission. The Company shall prepare summarized (consolidated) financial reports (on the Company and its subsidiaries and affiliated entities) in compliance with International Accounting Standards (IAS).

6.3. Internal Control over Financial and Business Activities

Recognizing the need for decreasing the probability of events, which may negatively affect the Company's achieving its corporate and business goals and which may result in losses, *inter alia*, due to making decisions based on wrongful assumptions, human errors or willful evasion of control, and acknowledging high significance of protecting the shareholders' investments and integrity of corporate assets, the Company has established a system of internal control over its financial and business activities.

The system of internal control over financial and business activities adopted by the Company is aimed at ensuring confidence and trust of investors to the Company and its managing bodies.

Internal control over financial and business activities shall be oriented at achievement of the following objectives:

- Reliability, completeness, neutrality and timeliness of preparation and presentation of financial, accounting, statistical, managerial and other reports;

- Compliance with applicable legislation of Russian Federation, resolutions of managing bodies of the Company and its internal documents;
- Preservation and integrity of the Company's assets;
- Accomplishment of the Company's goals in a most efficient way;
- Efficient and thrifty use of the Company's resources;
- Proactive detection and analysis of financial, operational and managerial risks, which may significantly (negatively) affect the accomplishment of the Company's business goals, as well as elaboration and implementation of mitigation activities.

The system of internal control over financial and business activities of the Company represents a package of interrelated and interactive elements, processes and procedures of internal control, which cover all directions of the Company's activities for the purpose of adopting managerial decisions based on complete and reliable information on the Company's business.

The Company adopted the following structure of internal control system:

1. Block of financial and economic control:
 - Control of financial activities;
 - Control of economic activities; and
 - Control of investment activities.
2. Block of production and technical control:
 - Audit of production business processes; and
 - Control of reliability and safety of production (EHS and fire protection systems and rules of personnel management).
3. Block of managerial audit:
 - Audit of business processes; and
 - Audit of organizational projects.
4. Block of functional audit:
 - Control, monitoring and analysis of activities in the framework of business processes of the Company.

The participants of the Company's system of control over financial and business activities are:

I (Peer) Level:

1. Board of Directors of the Company;
2. Internal Audit Commission of the Company;
3. Committee on Audit of the Board of Directors of the Company; and
4. Chairman of the Executive Board of the Company.

II Level:

1. Directorate of financial control and internal audit of the executive body of the Company;
2. Technical Audit Department of the executive body of the Company; and
3. Directorate of Managerial Audit and Methodology of the executive body of the Company.

III Level:

1. Functional auditors – employees of structural Departments of the Company authorized by the manager of relevant Department and having required skills for carrying out of functional audits within the limits of their competence; and
2. External Auditors – experts from outside organizations duly involved or contracted for completion of control and audit activities within the limits of their competence.

Functions, rights, responsibilities and liabilities of Departments of the Company are defined in organizational-administrative documents of the Company.

Specific procedures as well as bodies and officers responsible for implementation of procedures of internal control are defined in the Regulation on Internal Control of the Company approved by the Board of Directors of the Company.

6.4. Equity Structure

The Company shall strive to ensure transparency of the Company's share capital by way of disclosing information on actual owners of five and more percent of voting shares of the Company, including information on corporate relationships within the Group of Companies.

7. RELATIONSHIPS WITH SUBSIDIARIES AND AFFILIATES

7.1. Principles and Practice of Interaction with Subsidiaries and Affiliated Entities

The Company shall strive to well-balanced development based on efficient mechanisms of corporate governance.

The Company is in charge of interrelations with Subsidiaries and Affiliated Entities (SAE) in accordance with requirements of applicable legislation of Russian Federation, the Charter and internal documents of the Company, including charters of subsidiaries and affiliated entities.

Principle objectives of interaction of the Company with SAE are:

- Ensuring stable financial development, operational profitability, better investment attractiveness of the Company and its SAE;

- Ensuring protection of rights and legitimate interests of shareholders of the Company and its SAE;
- Harmonization of relations between shareholders, executive officers and members of labor collectives of the Company and its SAE, prevention of conflicts between them and inside such groups;
- Development and implementation of well-coordinated and efficient investment policy of the Company and its SAE.

The process of corporate governance in SAE shall be regulated by the following documents:

- Charter of the Company;
- This Code;
- Charters of SAE of the Company; and
- Standards and regulations related to procedures of corporate governance.

With advance of the practice of corporate governance, the Company will strive to further develop principles of corporate governance in relation to its subsidiaries and affiliated entities.

8. SETTLEMENT OF CORPORATE CONFLICTS

Prevention and settlement of conflicts between the bodies of the Company and its shareholders as well as among shareholders, in case such conflict affects the interests of the Company (corporate conflicts) allows us to ensure observance and protection of rights of shareholders and safeguard property interests and business reputation of the Company.

The Company shall strive to reveal corporate conflicts at the very early stages and shall ensure their careful resolution from the part of officers and employees of the Company.

The position of the Company in case of any corporate conflict shall be based on provisions of applicable legislation of Russian Federation.

Authorized bodies of the Company shall consider and settle all corporate conflicts within the limits of their competencies.

The Board of Directors of the Company, for the purpose of settlement of corporate conflicts relegated to its competence or to the competences of executive body of the Company, may establish a special Committee on settlement of corporate conflicts staffed by its members.

In case of any corporate conflict between shareholders of the Company, which may affect the interests of the Company or any other shareholders, the body of the Company, responsible for settlement of such dispute, shall determine whether such

dispute does affect the interests of the Company or other shareholders, and whether its involvement will contribute to or facilitate settlement of such corporate conflict.

With the consent of shareholders being counterparties of corporate conflict, authorized bodies of the Company (or their members) may participate in negotiations between shareholders, deliver to shareholders all and any information or documents in their possession that relates to the conflict, elucidate the norms of applicable legislation of Russian Federation and provisions internal documents of the Company, give advice and make recommendations, prepare drafts of documents on settlement of conflicts to be signed by shareholders and, on behalf of the Company within the limits of their competences, assume obligations towards shareholders to an extent that may contribute to settlement of the conflict.

9. FINAL PROVISIONS

The present Code shall be valid from the moment of its approval by the Board of Directors of the Company.

The Board of Directors of the Company at its meetings shall regularly review the compliance with this Code and shall ensure publishing of information on the results of such review.

The Company shall consistently perfect the present Code with due consideration of newly adopted standards of corporate conduct in Russian and international practice, thus safeguarding the interests of the Company, its shareholders and third parties.

All and any issues not explicitly set forth herein shall be regulated by applicable legislation of Russian Federation, international treaties and agreements, the Charter of the Company and its internal documents.

In case of conflicts between the norms of applicable legislation of Russian Federation and international treaties and agreements on issues regulated by this Code, international treaties and agreements with Russian Federation shall prevail.